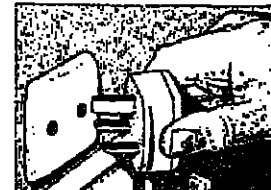


**Eastern Germany**  
Still far from competitive  
Page 13

**Writing software**  
Why it's cheaper to use Russians  
Technology, Page 9



**Britain's economy**  
Why Clarke should not raise taxes  
Samuel Brittan, Page 12



**Setting the rules**  
International standards  
Survey, pages 23-25

# FINANCIAL TIMES

Europe's Business Newspaper

THURSDAY OCTOBER 14 1993

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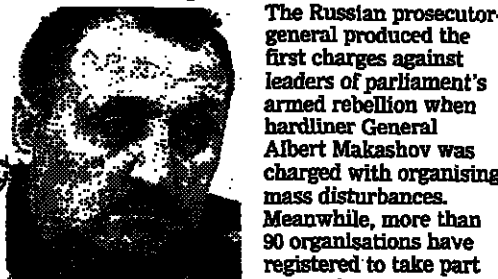
## US group poised to buy stake in Lloyd's agency

A group of leading US financial institutions is poised to acquire a substantial stake in a leading Lloyd's underwriting agency, a subsidiary of the Merrett Group, in a significant innovation for the insurance market. The group said it had approached Lloyd's with an outline plan to transfer its underwriting business to a new agency, in which J.P. Morgan, the investment bank, and Marsh & McLennan Risk Capital, a subsidiary of the world's biggest insurance broker, Merrett employees and other investors would own stakes. Page 8

**EC to propose tariff cuts:** The European Community is to propose cuts in tariff protection for manufactured goods in an attempt to break the deadlock in talks on world trade reforms. Page 14; US Congress attacks copyright curbs, Page 5

**Double blow for UK recovery:** Britain's hopes of sustained, non-inflationary recovery were dealt a double blow with news of a fall in manufacturing output over the summer and a higher than expected rise in retail prices last month. Page 14; Lex, Page 14; London shares, Page 27; Currencies, Page 34

**First charges against Moscow rebel:**



The Russian prosecutor-general produced the first charges against leaders of parliament's armed rebellion when hardliner General Albert Makashov was charged with organising mass disturbances. Meanwhile, more than 90 organisations have registered to take part in Russian elections

due on December 12, although observers expect parliament to be dominated by a few blocs. President Boris Yeltsin flatly ruled out simultaneous parliamentary and presidential elections. Page 3

**Kohl appeals against protectionism:** German chancellor Helmut Kohl appealed against protectionism to the French Senate, just as French prime minister Edouard Balladur was refining a minimalist approach to the Gatt talks before the other branch of the French legislature. Page 14

**Less independent Fed 'a mistake':** Attempts by the US Congress to reduce the independence of the US Federal Reserve would be a "major mistake", Alan Greenspan, the Fed chairman, warned, after proposals by a congressional committee to make regional Fed presidents political appointees. Page 6

**Beijing warns on Hong Kong:** Lu Ping, China's top official on Hong Kong, said failure to resolve differences with Britain over the colony's future would threaten its economy. Page 4

**Woolworth, the US retailer,** announced a \$480m after-tax charge against third quarter earnings to cover restructuring which includes closing about 10 per cent of its stores and cutting its workforce by about 5 per cent or 13,000 jobs. Page 15

**German markets merger cut back:** Plans for a full-scale merger of the German derivatives market with the market for German equities and fixed interest securities have been scaled back. Page 15

**Morgan Grenfell, the UK merchant bank,** has recruited about 20 equity traders, analysts and sales staff from rival James Capel to beef up its developing country debt and bond operations. Page 16

**Search for new Groupe Bull head:** The French government is searching for a replacement for Bernard Pache, chairman and chief executive of Groupe Bull, the loss-making computer manufacturer, according to sources close to the company. Page 16

**Polish leftwing coalition:** Two of Poland's parties with their roots in the communist past intend to form a coalition government following elections which failed to produce an outright winner. The Left Democratic Alliance and the Polish Peasant party together control 303 seats in the 460-member parliament. Page 3

**Klöckner-Werke steel mill talks:** A buyer for the integrated steel mill of Klöckner-Werke, the ailing German steel group, is being sought by Bremen, the German city-state. Sidma, a subsidiary of the Arbed steelmaker in Luxembourg, is among the domestic and international steel companies taking part in talks. Page 16

| STOCK MARKET INDICES |                   | STERLING           |                  |
|----------------------|-------------------|--------------------|------------------|
| FT-SE 100            | 3,080.9 (-13.8)   | New York lunchtime | 1,522.75         |
| Yield                | 5.81              | London             | 1,522.75         |
| FT-SE Eurotrack 100  | 1,317.15 (+1.14)  | \$                 | 1,522.75 (1,532) |
| FT-A All-Share       | 1,926.24 (-0.4%)  | DM                 | 2,425 (2,445)    |
| Nikkei               | 20,038.40 (-8.91) | FFr                | 8,875 (8,587)    |
| New York lunchtime   | 3,001.23 (+8.1)   | Sfr                | 2.14 (2.145)     |
| Dow Jones Ind Ave    | 3,001.23 (+8.1)   | Y                  | 161.5 (162.25)   |
| S&P Composite        | 461.06 (-0.06)    | £ Index            | 90.4 (90.4)      |

| US LUNCHTIME RATES  |        | DOLLAR             |          |
|---------------------|--------|--------------------|----------|
| Federal Funds       | 3.75   | New York lunchtime | 1,522.75 |
| 3-mo Treas Bill Yld | 3.085% | DM                 | 1,503    |
| Long Bond           | 10.43  | FFr                | 5.68     |
| Yield               | 5.919% | Sfr                | 1,405.75 |

| LONDON MONEY          |             | NORTH SEA OIL (August) |       |
|-----------------------|-------------|------------------------|-------|
| 3-mo interbank        | 5.75 (same) | Dec 11-15              | 11.43 |
| Life long gilt future | Dec 11-15   | Nov                    | 11.43 |
|                       |             | Dec 11-15              | 11.43 |
|                       |             | Nov                    | 11.43 |

| Gold                 |                | New York Comex (Dec) |                 |
|----------------------|----------------|----------------------|-----------------|
| New York Comex (Dec) | 338.75 (369.2) | London               | 338.75 (361.15) |
|                      |                |                      |                 |

|           |        |             |       |              |       |              |       |          |      |              |      |
|-----------|--------|-------------|-------|--------------|-------|--------------|-------|----------|------|--------------|------|
| Austria   | Sw100  | Germany     | D120  | Italy        | LI100 | Japan        | NY100 | UK       | FTSE | US           | NYSE |
| Belgium   | D11250 | Hong Kong   | HK100 | Malaysia     | MB100 | Spain        | IBEX  | Sweden   | OMX  | Switzerland  | SMI  |
| Bulgaria  | B100   | Hungary     | H100  | Netherlands  | AEX   | South Africa | JSE   | Denmark  | OMX  | France       | CAC  |
| Canada    | TSX    | Ireland     | ISEQ  | Nigeria      | NGX   | Thailand     | SET   | Finland  | HEX  | West Germany | DAX  |
| Czech Rep | CZ100  | Israel      | TA100 | Poland       | GPW   | Turkey       | BIST  | Portugal | VLX  |              |      |
| Denmark   | OMX    | Italy       | MI100 | Romania      | BVB   | UAE          | DFM   |          |      |              |      |
| Egypt     | E100   | Japan       | NY100 | Saudi Arabia | TASI  |              |       |          |      |              |      |
| France    | CAC    | South Korea | KOSPI | Singapore    | SEI   |              |       |          |      |              |      |
| Germany   | DAX    | Taiwan      | TSE   | Sri Lanka    | CEX   |              |       |          |      |              |      |

## Papandreou halts Greece's telecoms privatisation

By Kerin Hope in Athens and Maggie Urry in London

THE NEW Greek Socialist government yesterday announced it would cancel the partial privatisation of the telecommunications company OTE, raising fears about the future of other sell-offs planned by the former conservative government.

Mr Andreas Papandreou, whose Panhellenic Socialist Movement was returned to power in Sunday's general election, made the announcement on television at the start of his new

cabinet's first meeting. Mr Papandreou had claimed during the election campaign that Pasok was now committed to co-operating with the private sector and to further liberalising Greece's financial markets.

The previous conservative government had also earmarked two state-owned oil refineries for sale this year although plans were only at an early stage. A series of commercial plans, including the award of new casino licences and several development projects are also now in doubt.

The telecommunications law,

passed two months ago, provided for the sale of 49 per cent of OTE. Negotiations started earlier this year with six international operators shortlisted to buy a strategic 35 per cent stake in the company. Preparations were also underway to float OTE on the Athens stock exchange with the sale of 10 per cent of the company to the public and 4 per cent to employees.

A group of international merchant banks, including Credit Suisse, First Boston, J. Henry Schroder Wagg and N.M. Rothschild, Morgan Stanley and Par-

ibas Capital Markets, were handling the flotation. CSFB was also advising on the strategic sale.

Pasok sources said agreements with several foreign merchant banks were being terminated.

Mr Gerry Grimstone, a corporate finance director at J. Henry Schroder Wagg, the merchant bank which had been appointed to handle the offer to the public of shares in OTE, said the bank had not yet received instructions from the Greek government.

However, Mr Evricos Sarsentis, a Greek analyst at J. Henry

Schroder Wagg, said Schroder hoped the flotation would still go ahead.

Neither Schroders nor N.M. Rothschild, which has been advising the Greek government on the privatisation programme as a whole, are expected to sue the government for breaking their contracts. One banker said: "It is all part of the rich tapestry of investment banking".

Schroders and other advisers have already done a lot of work on the OTE deal, which was originally planned for November, although it had been hitting

delays before the election. The proposed sale was fiercely opposed by the OTE union and by local suppliers of telecoms equipment, who feared they would be squeezed out by competition from abroad once an international operator took over management of the company.

The new prime minister has announced his intention of giving a cabinet post to Mr Dimitris Tsoulas, finance minister during Pasok's last term, who was convicted last year by a special court

Continued on Page 14

## Bell Atlantic to buy US cable company for \$18bn

Deal with TCI set to transform telecommunications industry

By Martin Dickson in New York

BELL ATLANTIC, the US regional telephone group, yesterday announced an agreement to buy Tele-Communications Inc, the largest American cable television company, for up to \$18bn in a deal which will radically change the US communications industry. It will also be one of the country's biggest ever takeovers.

The deal - which is bound to face strong regulatory scrutiny - would be the first full merger between a US telephone company and a cable business at a time when the two industries are converging to create a single, multimedia interactive entertainment and information business.

Bell Atlantic, the telecommunications group serving the middle part of America's eastern seaboard, has been one of the most aggressive telephone companies trying to enter the video industry.

TCI, based in Denver, has been built up by Mr John Malone, its chief executive, over the past 20 years into a company serving some 20 per cent of cable homes.

The share swap deal would also include Liberty Media, a cable programming company which TCI spun off in 1991. It announced plans to re-acquire the business last Friday.

Yesterday's pact could have implications for the current takeover battle for entertainment group Paramount Communications.

Liberty Media is an important shareholder in QVC Network, the

- The perfect information age marriage Page 15
- Lex Page 14
- BellSouth buys stake in cable TV operator Page 18

home shopping channel headed by Mr Barry Diller, which is making a hostile \$9.5bn bid for Paramount, in competition with a \$7.5bn agreed bid from cable company Viacom.

Analysts said the Bell Atlantic deal could help strengthen QVC's position. Mr Malone said yesterday that the QVC bid was peripheral to the Bell Atlantic deal, though he wished Mr Diller the best of luck and would personally do what he could to help him.

Viacom, which has launched a legal suit trying to block the QVC bid because of Mr Malone's alleged "monopolistic intentions" in the cable industry, yesterday called on Congress to "take a hard look" at Mr Malone's record.

Mr Raymond Smith, chairman of Bell Atlantic, yesterday hailed yesterday's agreement as a "model for communications companies in the next century".

A letter of intent between the two groups calls for most of TCI and Liberty's assets to be merged into Bell Atlantic, apart from cable service companies owned in the region where Bell Atlantic is a telephone operator. These would be sold or spun off to shareholders separately.

Under the 1994 cable act regional telecommunications



Bell Atlantic chairman Raymond Smith (right) and John Malone, his counterpart at TCI, announce the merger of the two companies

companies are forbidden from buying cable companies in the area where they operate telephone services.

The deal values TCI at \$11.8bn, excluding the Liberty Media programming assets, which would be worth some \$5bn to \$6bn more if included in the takeover. Bell Atlantic would also take on some \$9.5bn of debt.

The approximate \$28bn total compares with the \$25bn value of the 1989 takeover of RJR Nabisco in a leveraged buy-out by Kohlberg Kravis Roberts, which also assumed some \$4.5bn of debt.

## Flotation of Inmarsat would create company worth \$2bn

By Daniel Green in London

INMARSAT, the international satellite operator owned by 71 of the world's telecommunications authorities and companies, will next year propose its effective flotation.

The move would create a company likely to be worth more than \$2bn.

The biggest shareholder is Comsat, the publicly quoted US company, with 34.6 per cent. British Telecom comes next with 17.7 per cent, followed by Norwegian Telecom with 10.7 per cent and Japan's KDD with 9.1 per cent.

Inmarsat was established in 1979 to provide satellite communications for shipping. It has since expanded into land and air mobile communications and is now used for telephones and faxes in passenger aircraft and by news-gathering and emergency services.

The organisation's annual turnover exceeds \$300m and it has a "surplus", equivalent to a profit, of about \$100m a year. Its annual growth has exceeded 20 per cent for the last four years.

The mechanism likely to be put to Inmarsat's owners early next year is that their stakes become

| Inmarsat's largest shareholders (%)   |       |
|---------------------------------------|-------|
| Comsat (US)                           | 24.68 |
| British Telecom (UK)                  | 17.74 |
| Norwegian Telecom (Norway)            | 10.66 |
| Kokusai Denhin Denwa (Japan)          | 9.07  |
| France Telecom (France)               | 6.41  |
| Morsvazopusk (Russia)                 | 4.36  |
| Deutsche Bundespost Telekom (Germany) | 2.77  |
| Telecom Italia (Italy)                | 2.74  |
| PTT Nederland (Netherlands)           | 2.51  |
| Hellenic Telecommunications (Greece)  | 2.49  |

tradeable with each other. From there it is a relatively small step to allowing third parties to buy stakes in Inmarsat.

If Inmarsat were to be valued on a similar basis to companies such as BT or Cable and Wireless, it would be worth more than \$2bn.

On a valuation of \$2bn, BT's stake in Inmarsat would be worth \$36m, compared with its net investment so far of \$38m.

Inmarsat has in recent months laid plans to move into mass markets for mobile communications.

It wants to build a global mobile telecommunications network based on its satellites. But

the scheme is bringing it into conflict with private sector companies, such as Motorola, which plan similar networks.

"We're operating in an increasingly competitive environment. It is useful to have an accurate value of shareholders' investment", said Mr Ramlin Khadem, Inmarsat's chief financial officer.

Mr Bruce Crockett, chairman and chief executive of Comsat, Inmarsat's biggest stakeholder, said he supported moves towards flotation.

"It would allow other [companies] to become owners. That makes a lot of sense", he said.

He added that such a market would yield high valuations for stakes.

BT took a more cautious line yesterday, saying that it would make up its mind after a study group had made a report in February 1994.

Mr Crockett said it was "inevitable" that a similar move would be considered by Inmarsat's sister organisation, Intelsat, which operates satellites for non-mobile communications.

Intelsat's sales exceed \$600m a year, but growth is slower and it faces competition from cable-based telecommunications.

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## NEWS: EUROPE

# German banks chief IG Chemie increases pay pressure attacks sell-off plan

By John Gapper in Bonn

MR Horst Köhler, the newly-appointed president of the German Savings Bank Association, yesterday stepped into the growing debate on bank privatisation by calling for his member banks to remain in public ownership.

Mr Köhler said that privatisation of Germany's 710 local authority-owned savings banks and 13 commercial banks owned by state governments could lead to restrictions on lending to small and medium-sized companies.

His remarks at a press conference follow pressure from German politicians including Mr Günter Rexrodt, the federal economics minister, for the speeding-up of bank privatisation. Mr Köhler, formerly finance ministry state secretary, said that the 13 Landesbanken and 710 Sparkassen which account for 60 per cent of all small business lending, could lose their regional strength if privatised.

He said that public ownership enabled the savings banks to take a longer-term view of finance for small and medium-sized businesses, and their network of 20,000 branches led to more accurate credit assessments. Mr Köhler said that it was important to ensure that financial services were available in all regions. He said privatisation of savings banks could lead to "more concentration, and more fragility in our economy".

He said that savings banks were supporting local businesses more strongly than privately-owned commercial banks, since Sparkassen lending was 6 per cent up in the first half of the year, compared



Horst Köhler, head of the German Savings Bank Association

with the second half of 1992. Mr Rexrodt last month promised new laws to accelerate privatisation of the Sparkassen and Landesbanken. He singled out WestLB, the Landesbank in North Rhine-Westphalia for criticism over its equity stakes in companies.

Mr Otto Lambsdorff, economics spokesman and former leader of the Free Democrats, Mr Rexrodt's own party, has

also called for bank privatisation, which economists have calculated could raise DM100bn-DM150bn (£40bn-£60bn) for the government.

Mr Köhler said the Sparkassen had to reduce costs and improve their use of technology, but their relatively low proportion of write-offs of assets, including loans, showed that their local presence improved earnings.

By Christopher Parkes in Frankfurt and Quentin Peel in Bonn

IG CHEMIE, the German chemicals industry union, will make a pay claim of "around" 4.2 per cent at negotiations for 1994 starting next month, according to Mr Hermann Rappe, union president.

Mr Rappe, who represents 819,000 workers across German industry, said in a radio interview the union would resist calls for a pay freeze.

His informal "estimate" of a claim yet to be agreed by the union's board highlights the low morale among workers' representatives as they prepare for the new year's pay round.

The chemicals industry employers have made no proposals, although they have been at pains to illustrate their lack of ability to pay.

Germany's leading political parties have all lost substantial support in the opinion polls over the past two months, with a significant rise in the popularity of all the fringe protest groups, writes Quentin Peel. The Christian Democratic Union, and its Bavarian sister party, the Christian Social Union, would get only 30.3 per cent support if there were an election this week, according to the latest poll by the Allensbach Institute. At the last general election in December, 1990, the parties won 43.8 per cent. The Social Democrats are down to 35.4 per cent, compared with 38.2 per cent in the west and 34.6 per cent in the east. The principal beneficiaries have been the Greens, up to 12.1 per cent, and the far right Republicans, up to 5.6 per cent, enough to gain them seats in the Bundestag.

Their association recently said 30,000 jobs would go this year and more would follow in 1994.

Pay had risen 15.5 per cent in the past three years while productivity had gone up only 6 per cent.

Mr Rappe claimed 4.2 per cent would match the expected rate of inflation in western Germany next year, although

all official and unofficial forecasters predict a rate of 3.5 per cent.

His proposal followed Tuesday's recommendation from IG Metall, representing engineers and metal workers, for a rise of "up to 6 per cent", which was immediately rejected by employers as "poison".

In Bonn, Mr Dieter Kirchner, chief

executive of Gesamtmetall, the engineering employers' federation, described the union's claim as "income-repressible, unrealistic and illusory".

He warned that Gesamtmetall and IG Metall, the two giants of the German wage bargaining process, were in danger of becoming extinct if they failed to find realistic solutions to the high-cost problems of the industry.

"If we follow the old pattern of negotiations, there will be a loss of confidence in the wage bargainers," he said. "I don't want to be one of the dinosaurs. I do not think IG Metall wants to be one either."

"What we need this year is a significant cost reduction. This combination of a six per cent wage demand, and a call for a moratorium on job cuts is simply impossible to understand."

## Spanish inflation battle on course

By Tom Burns in Madrid

SPANISH inflation fell last month to its lowest year-on-year September level since 1987, fuelling market expectations of interest rate cuts soon.

The pressure on the monetary authorities to help kick-start the economy with lower rates has built up since figures released at the beginning of

the week showed that the number of new unemployed between January and September had risen by 336,770.

A total of 2.5m Spaniards, or 16.6 per cent of the active working population, are now registered as seeking jobs.

Prices rose by 0.6 per cent last month to bring accumulated inflation for the first nine months of the year to 3.9

per cent. Year-on-year headline inflation is now down from 4.6 per cent at the end of August to 4.3 per cent at the end of last month.

Underlying inflation, which excludes the more volatile prices of non-processed foods and energy, fell from an annual rate of 5.7 per cent to 5.4 per cent.

Analysts said that although

annualised inflation is expected to rise slightly in the next three months to stand above 4.5 per cent at the end of the year, there was now room for the Bank of Spain to follow up on a half-point interest cut it introduced at the beginning of September when it brought its key intervention rate down to 10 per cent.

Since the last rate cut, the

government has unveiled a restrictive 1994 budget that reduces government expenditure and has an inflation rate target for the end of next year of 3.5 per cent.

The climate is now right for the Bank of Spain to bring down rates in the next few days," said Mr Jose Luis Feito, senior economist at Madrid securities house AB Asesores.

## Brussels starts Aer Lingus state aid probe

By David Gardner in Brussels

THE European Commission yesterday started a state aid inquiry into the Irish government's planned £175m (£165m) cash injection into Aer Lingus, Ireland's flag airline.

The decision to query the package marks a hardening line in Brussels against attempts by member states to bail out their financially troubled carriers, and to chip away

at the air transport deregulation legislation agreed last year. Mr Abel Matutes, EC transport commissioner, signalled when transport ministers of the Twelve met at the end of last month that he was not satisfied with the cost-cutting measures Aer Lingus was taking as part of the three-year restructuring plan the state aid is linked to.

At the same meeting, EC competition commissioner

Karel Van Miert, who as transport commissioner had approved big cash injections for Sabena, Iberia and Air France, insisted that these were "last chance" agreements for returning these airlines to viability.

A Commission official said yesterday that "more information is needed... about the viability of the (Aer Lingus) plan" in four main areas:

ground-handling monopoly; Brussels is separately investigating refuelling and baggage-handling monopolies at airports across Europe.

• The extent to which Aer Lingus' obligation to stop over at Shannon airport on transatlantic flights is a cost impeding a return to viability.

• The competition implications of the state aid on the Dublin-London route.

• A commitment from Ireland

that this will be the last state aid to the airline.

Aer Lingus and Dublin have a month to reply to these queries before Brussels decides either to approve the aid or take the enquiry a stage further. During that period it may also start examining other aviation state aid cases involving plans to put more cash into Air France, Olympic Airways of Greece, and TAP, Portugal's flag carrier.

## Belgian franc loses more ground against D-Mark

By Andrew Hill in Brussels and Peter John in London

THE Belgian franc yesterday dropped to its lowest level against the D-Mark for at least three years amid renewed speculation about a possible cut in interest rates.

In spite of support from the Belgian central bank, which denied rumours of a change in interest rate policy, the Belgian currency slipped at one point to the bottom of the European exchange rate mechanism. The French franc was also pushed down sharply.

Belgian analysts said there seemed to be no single reason why the Belgian franc should have come under such pressure yesterday. However, tension has been mounting in recent weeks, as the government prepares to publish

guidelines for its negotiations with employers and unions over a "social pact".

The guidelines have been prepared by a committee headed by Mr Alfons Verplaese, the central bank governor, and are expected to lay the foundation for cuts in labour costs, improvements in competitiveness, and the reduction of Belgium's large budget deficit.

Certain Belgian economists have suggested that easing interest rates might be one way of making Belgian companies more competitive.

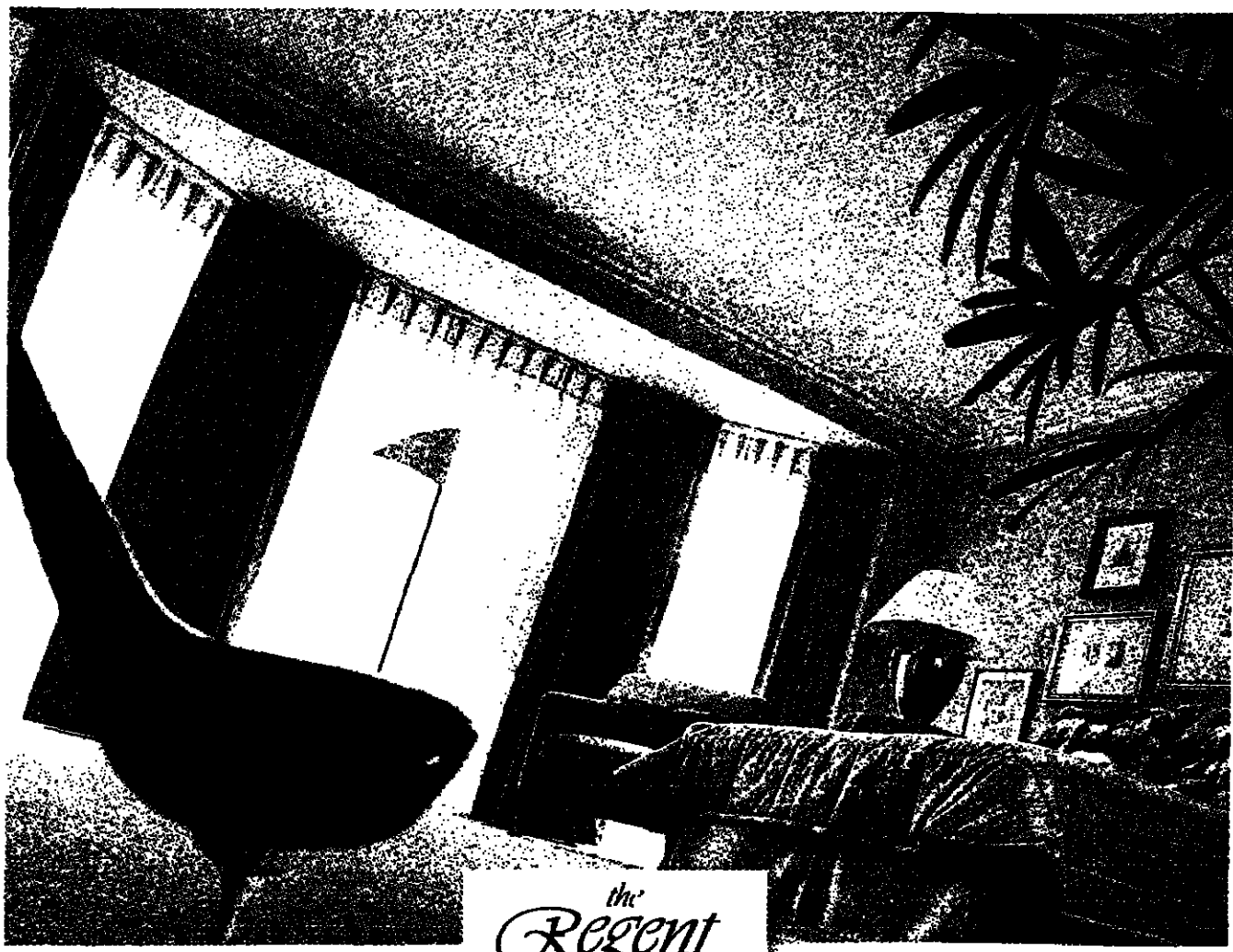
Dealers said yesterday that pressure on the franc had come from within Belgium but there were also rumours that it might have been generated by Mr George Soros's Quantum Fund, the US investment group which made also \$1bn (£800m)

at the time of sterling's exit from the ERM last year. The Belgian franc ended the day at BFR21.89 against the D-Mark, up slightly from a low of BFR21.85 but weaker than its previous close of BFR21.78.

The fall reflected the view that the "core" members of the ERM, saddled with high unemployment and hit by recession, may have to ease interest rates shortly, in spite of pledges to shadow the D-Mark.

The French franc closed at FFfr5.280 against the D-Mark, down from FFfr5.5120. A spate of strikes, lower overnight interest rates and comments from Mr Edmond Alphandery, the minister for the economy, that a weaker franc had been a key factor for stimulating growth, gave hope that the key intervention rate might fall from its present 6.8 per cent.

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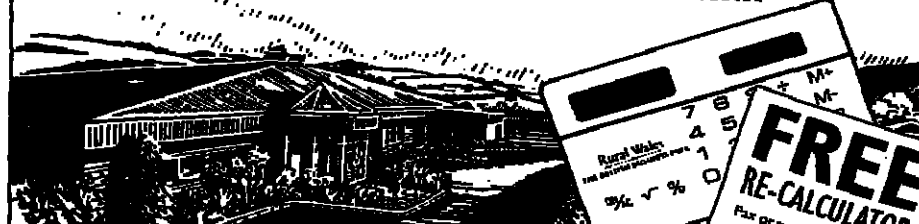
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## Report warns on consequences of widening income differences

# Pay gaps threaten to split Russia

By John Lloyd in Moscow

WIDENING differences in Russian incomes could threaten both the government's reforms and its political legitimacy, according to a report by the Centre for Economic Policy Research.

In a paper entitled "The Distributional Consequences of Russia's Transition", Dr Chris Doyle points to a widening gap both between individuals and between regions of Russia.

In being prepared, "at least in the short term, to sacrifice equity for efficiency", he says, the government risks sacrificing political legitimacy.

Further, the weakness of the centre and its apparent inability

to impose a fair tax structure, coupled with the growing wealth of some regions and the deepening poverty of others, poses large political risks. "The local versus federal fiscal tension could result in the fragmentation of the Russian Federation," he believes.

A social safety net with targeted benefits is urgently required for those who have suffered the worst effects of the rapid collapse of the command economy, he says. Since "the federal government is not in a strong financial position to undertake large scale social programmes", foreign aid should concentrate on that area.

Using the scanty data avail-

able, Dr Doyle shows that high, medium and low earners, all of whom enjoyed significant income growth during the Gorbachev years from 1985-1991, saw their real monthly incomes plunge by up to half in 1991-1992.

Total real household wealth had plunged from Rb220bn at the end of 1991 (expressed in December 1990 roubles) to Rb29.5bn by the end of 1992, a decline of 88 per cent. "Thus, the impact of price liberalisation was to severely erode household wealth."

Pensioners have suffered particularly badly from the effects of reform. The real purchasing power of pensions has more than halved between

early 1991 and mid-1992. Those on average pensions have seen some small recovery since.

However, those on the lowest pensions remained at a very low subsistence level to the end of last year, with their income at half or less of the official "physiological minimum", that is, the estimate of the monthly cost of providing a "healthy diet" plus an extra 20 per cent for other expenses.

Dr Doyle argues that the new tax system, heavily based on value added and profits taxes, is as yet unstable and vulnerable to rapid erosion because of inflation.

He says the experience of privatisation, where many assets have been sold to citizens

exchanging vouchers for shares in companies, will only initially mean wide share ownership. In time, "as household real incomes and wealth have fallen sharply during the initial stages of the reform programme, it is likely that shares and vouchers will be sold by many... concentration of ownership into a few powerful institutions [new pension funds, conglomerates] is likely to happen".

*The Distributional Consequences of Russia's Transition* by Dr Chris Doyle, Discussion Paper no. 833, Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB

## Left-wing parties form coalition in Poland

By Christopher Bobinski in Warsaw

TWO of Poland's parties with their roots in the communist past said yesterday they intended to form a coalition government following elections on September 19 which failed to produce an outright winner.

The Left Democratic Alliance (SLD) and the Polish Peasant Party (PSL) signed a joint statement of their intention yesterday. Together they won 35 per cent of the vote and control 303 seats in the 460-member parliament.

They have also proposed Mr Waldemar Pawlak, a 34-year-old farmer and PSL leader, for prime minister.

The SLD leader, Mr Aleksan-

der Kwasniewski, said: "We want a strong and effective government. We want a government which will support a strong market economy but which will respect social rights." He will not join the government but will lead the group's parliamentary caucus.

Putting Mr Pawlak's name forward could lead to new delays as President Lech Walesa is insisting the SLD, which won the biggest share of seats in the election, should give him three names from which to choose a premier.

If he fails to appoint a head of government within two weeks after the first meeting of the lower house, parliament can nominate a prime minister without consulting him.

Yesterday, the coalition in a conciliatory gesture to Mr Walesa withdrew a proposal to transfer presidential powers over the security services to the government and parliament.

This, and the coalition's refusal to accept a reduction in Poland's mass privatisation scheme, caused the Solidarity-rooted Labour Union to withdraw from coalition talks yesterday.

Mass privatisation, a plan backed by the World Bank, will place the ownership of around 600 state sector companies with foreign-managed national investment funds and distribute the shares in those funds at a nominal charge to Poles who care to buy them.

## Danes again bail out Faroes sinking ship

DENMARK has guaranteed a DKr1.3bn (£131m) loan to the Faroe Islands to help the self-governing province bail out its two largest commercial banks.

The agreement came after 12 hours of negotiations in Copenhagen between Mr Mogens Lykketoft, Danish finance minister, and Mrs Marita Petersen, Faroese prime minister. Most of the loan will go to Føroya Banki and Sjovinnubankin, which faced bankruptcy.

The accord will help stave off economic collapse for the islands as a whole, according to Mr Lykketoft. "This step, and others to come, create a basis for putting the Faroes on its feet again. It will take a long time and it will be painful but it can be done," Mr Lykketoft said yesterday.

The windswept North Atlantic islands, part of the Kingdom of Denmark, built up large domestic and foreign debt during a period of rapid expansion in the 1980s.

Denmark stepped in earlier this year with DKr1.4bn to rescue the Faroese banks, which had to write off 24 per cent of their loans. The Danes also provided DKr450m to keep the government itself from having to suspend payments.

In the mid-1980s, the 47,000 islanders enjoyed one of the highest per capita growth rates in Europe. But little has gone right for the islands since then.

The fisheries, which account for 90 per cent of exports, have collapsed. Over-fishing of Faroe waters by a fishing fleet subsidised to the hilt by the Faroese government is partly blamed. The steep fall in the international price of fish over the past year has added to the troubles.

The decline of the fisheries industry has taken the rest of the economy with it. In the five years to 1993, gross domestic product has fallen by about 25 per cent (in current prices) and domestic demand was halved.

Unemployment is about 20 per cent and would be higher but for the fact that since 1988 about 4,500 islanders, some 9

Next year, the island government will need to borrow about DKr3.3bn, says the report. Some DKr1bn is in foreign loans, mainly Yen and D-Marks, which Denmark will have to refinance. How much of the rest the Danish taxpayers will have to meet is a matter for negotiation, according to an official at the prime minister's office.

Until fish stocks are re-established - and fish prices recover - the islands' future looks bleak.

The government has raised taxes and slashed spending, including an 8.5 per cent cut in the pay of everyone employed in the government sector this year.

More is needed, according to Copenhagen, which has made the loan conditional on the Faroese government cutting spending next year by at least DKr250m.

In its report, Copenhagen proposed a wealth tax to be levied on older islanders, many of whom built up wealth in the good years, and a virtual halt to infrastructure investment. In the longer run, oil and gas from beneath the sea could be the islands' saving.

BP made a substantial find in the UK sector close to the dividing line with the Faroese sector earlier this year. But a hunt for hydrocarbons by the Faroese themselves is being held up by a dispute with Britain over economic zone divisions. Even if this dispute is settled quickly, which does not seem likely, it will be a long time before any hydrocarbons in the Faroese sector can be exploited.

In the meantime, the islanders will have to tighten their belts and pray for the fish return.

## Loan accord will help stave off economic collapse for the islands, writes Hilary Barnes in Copenhagen

per cent of the population, have emigrated, many of them to live on social security in Denmark.

Much of the islands' debt was built up in the 1980s, when bridges, a tunnel, schools and nurseries were built. Central and local governments alike went heavily into debt as investment boomed and the current account of the balance of payments went deeply into deficit.

The islands' net foreign debt soared to its present level of about DKr7.9bn, or DKr170,000 (some £17,000) per islander and around 140 per cent of gross domestic product. The government's budget deficit (including capital items), according to a report from the Danish prime minister's office, will this year run to about DKr1.5bn, some 31 per cent of GDP.



The blackened White House parliament building provides a grim backdrop as two Muscovites argue over Russia's plight

## Parties sign up to run in polls

By John Lloyd

MORE than 90 organisations have registered to take part in Russian elections due on December 12, although politicians and observers expect parliament to be dominated by a handful of blocs.

President Boris Yeltsin yesterday ruled out simultaneous parliamentary and presidential elections, as suggested by an aide on Tuesday.

However, Mr Vladimir Shumeiko, first deputy prime minister, yesterday repeated the opinion of many in Mr Yeltsin's entourage that elections should be held on the same day. The president, in comments at the end of his visit to Tokyo, did leave open the possibility of a change in presidential elections from the announced date of June 12 next year, saying the new parliament would decide the date.

Intense politicking is now going on between the leaders of various parties and groups in an effort to construct election coalitions - though the

tendency at present seems towards fragmentation. The main liberal grouping, Russia's Choice, is due to hold a convention this weekend.

Russia's Choice is headed by Mr Yegor Gaidar, first deputy prime minister, and is likely to receive Mr Yeltsin's endorsement. However, two other pro-market groupings - the Russian Movement for Democratic Reforms, whose list is headed by Mr Anatoly Sobchak, mayor of St Petersburg, and the August grouping, based on the Party of Economic Freedom headed by Mr Konstantin Borovoi - have so far declared they will run independently.

The centre groupings are likely to include New Russia, which brings together Christian democratic and social democratic parties.

Leaders of the communist and nationalist movements, many of whose parties are banned under the state of emergency due to end this weekend, have said they will participate, if necessary under the aegis of parties entitled to run.

## Norway's budget aims to cut deficit

By Karen Fosell in Oslo

NORWAY'S minority Labour government yesterday unveiled a draft budget proposal for 1994 which aims to create jobs and protect the welfare state while still cutting last year's record deficit by NKr6.1bn (£475m).

The government forecasts a budget deficit of NKr48.4bn for 1994, or 6.1 per cent of gross domestic product, down from last year's NKr51.5bn. However, the government said this year's budget deficit would be 3.4 per cent of GDP, somewhat higher than the 3 per cent ceiling stipulated by the Maastricht treaty convergence criteria. Norway is currently seeking European Community membership.

The current account surplus is forecast to rise to NKr35.5bn from NKr25.3bn, mainly because of higher oil production.

Total revenue is expected to increase to NKr230.2bn from NKr218.4bn last year, while spending is set to rise to NKr376.5bn from NKr369.9bn. The finance ministry said it aimed to raise NKr880m annually by increasing the marginal wealth tax rate to 1.8 per cent from 1.5 per cent.

The government promised to try to cut the tax bill to industry by NKr584m in an attempt to improve conditions for job creation. Measures to achieve this include the abolition of an electricity duty, which the government said would save industry NKr270m annually.

The unemployment rate is about 8 per cent, a post war record. Economic growth is forecast to accelerate to 3 per cent from 1.3 per cent this year.

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## NEWS: INTERNATIONAL

## Japan and Russia take step towards better relations

By William Dawkins in Tokyo

THE Japanese government yesterday breathed a sigh of relief that relations with Russia, traditionally regarded as a dangerous and untrustworthy neighbour, had taken a step towards normality.

In spite of the bad omens for the three-day visit of Mr Boris Yeltsin, the Russian president, which ended yesterday, the two nations claimed they had made real progress towards ending nearly five decades of mutual hostility.

Their agreement to open negotiations on the future of four Pacific islands, seized by Soviet troops at the end of the second world war, might seem

modest but it will attract wide attention among the Japanese public, which values the Northern Territories, as the four Kurile islands are called in Japan, as a symbolic national asset.

"President Yeltsin's visit has opened the first page towards normalising relations... We have established the foundation for new negotiations," said Mr Morihiro Hosokawa, Japan's prime minister.

This could reduce the split between Japan and its partners in the Group of Seven industrialised nations on how to handle Russia. Until yesterday, Japan was in danger of being the only industrialised country not to have responded to the

end of the cold war by moving towards normal relations with Moscow.

The progress achieved on this visit, while short on concrete detail, will strengthen Mr Yeltsin's legitimacy at home, as no doubt he intended.

It will also bolster the position of Mr Hosokawa, who had come under opposition attack for allowing the visit to go ahead.

Officially, Japan continues to deny large-scale economic aid to Russia until there is more substantial progress on the row over ownership of the islands.

Yet Japan has been unable to hold this line rigidly, under pressure from its G7 partners

which have been boosting aid to Russia to help its transition to a market economy.

Pressure on Japan came to a head last April when Tokyo was chairman of a G7 emergency meeting on aid to Russia, at which it pledged \$1.8bn (£1.19bn). As a result, Japan is now Russia's third largest donor, despite the islands dispute.

Thanks to the improvement in relations over the past few days, Japan will now further increase the flow of aid to Russia, officials say.

But this will merely mean faster disbursement of the nearly \$5bn so far pledged, of which only 10 per cent has been paid out, they add.

Examples include a Japanese-financed \$200m fibre-optic telecommunications link between Moscow and the Russian far east, part of an aid package agreed two years ago but yet to be implemented.

Separately, they signed an economic accord, in which Japan offered its expertise to help Russia shift to a free market economy.

The accord listed 11 sectors for increased co-operation, including nuclear power, space technology, environmental conservation, agriculture, transport and communications.

They also agreed, for the first time, to seek foreign policy co-ordination, "based on shared values," the Japanese

foreign ministry said.

The omens had indicated that any progress was unlikely. Mr Yeltsin had snubbed his hosts by cancelling plans to visit Tokyo twice in the past 13 months, blaming the former LDP government's hard line over the islands. Japan, meanwhile, was more interested in pouring money into China's fast-developing economy.

Many people, especially in the LDP, were suspicious that Mr Yeltsin had chosen now to make good his promises to call on the Japanese government.

Coming only a week after using tanks to put down the rebels in Moscow, it looked to some that Mr Yeltsin was pulling a propaganda stunt, at

Japan's expense, to demonstrate his confidence.

As Mr Yeltsin left Moscow, he confirmed Japan's worst misgivings by warning that he hoped the Tokyo government would not spoil the visit by bringing up the question of the islands.

Japanese officials felt as if a diplomatic earthquake was on the way. In the event, Mr Yeltsin's arrival did coincide with a real earthquake, the worst to hit Tokyo for several months.

But his surprisingly conciliatory stance, including an unsolicited apology, repeated several times, for Soviet treatment of Japanese prisoners of war, left the diplomatic landscape rather improved.

## UN settles for damage limitation in Somalia

By Leslie Crawford in Mogadishu

UNITED NATIONS' diplomats struggling to conjure a new policy for Somalia are only certain of two things: they cannot afford any more deaths among peacekeeping troops and they must find ways of blocking the departure of the all-important UN contingent.

Mr Kofi Annan, the UN chief of peacekeeping operations, was unable yesterday to clarify the UN's aims in Somalia, in particular how it intended to deal with the defiant warlord, Gen Mohamed Farah Aidede.

At a press conference in Mogadishu, he left the impression that the 30,000-strong military intervention in Somalia had become an exercise in damage limitation.

"The level of fatalities is unsustainable and unacceptable," Mr Annan said of the 70 Blue Helmets who have been killed in Mogadishu since June.

"When governments begin to take casualties, the public outcry is difficult for politicians and leaders to handle. We were not prepared, we did not expect to encounter this level of violence."

Mr Annan made clear that the UN's priority in Somalia from now on would be to minimise the level of casualties. He did not explain how this could be achieved without abandoning the fruitless and always violent hunt for Gen Aidede.

But it was apparent that the UN was searching for formulas to scale down the confrontation with the rebel warlord. Plans to put Gen Aidede on trial for war crimes have been abandoned.

Instead, Mr Annan talked of having "some sort of judicial process" that would investigate Gen Aidede's responsibility for the killings of UN soldiers in his south Mogadishu fiefdom.

Gen Aidede is unlikely to be pursued while he continues to hold a US helicopter pilot and a Nigerian soldier captive. Washington, with its history of hostage dramas, is suggesting an "independent inquiry" into the Mogadishu killings.

Many Somalis now believe that if Gen Aidede plays his hostage card correctly, he will probably escape the rigours of a UN trial altogether.

Gen Aidede's unilateral ceasefire, which has given Mogadishu a few precious days of peace, was briefly broken yesterday by an attack on a UN food convoy guarded by Saudi troops.

Some food was looted, but there were no reports of casualties.

Mr Annan said President Bill Clinton's decision to pull out US troops from Somalia in six months' time would "weaken the UN operation considerably, if not unravel it altogether."

The timetable for withdrawal gives the UN little time to replace the largest single contingent in Mogadishu with troops from other countries. Mr Annan implied that it would be difficult to match US expertise in logistics and air surveillance.

He was also unhappy about the timing of the decision: to announce the withdrawal following the deaths of 16 US soldiers in a gunbattle with Gen Aidede's militias was to broadcast to the world that a few determined men could block an international peacekeeping mission, Mr Annan said.

## Bombay brokers in tax probe protest

By Stefan Wagstyl in New Delhi and RC Murthy in Bombay

A STOCKBROKERS' strike yesterday halted trading on the Bombay Stock Exchange, India's largest equity market, following repeated failures to settle a dispute arising from last year's Rs42bn (£875m) securities market scandal.

Brokers meet today to decide whether to continue their action which has disrupted stock market dealings throughout India and undermines efforts to build confidence in the capital markets.

The dispute started last month when income tax inspectors investigating the affairs of Mr Harshad Mehta, the broker at the centre of the scandal, froze dealings in specified blocks of stock in nine leading companies.

The inspectors' action has upset trading because brokers and investors alike have become reluctant to deal in shares of the nine companies for fear of handling tainted stock and unwittingly being drawn into the tax probe. Under the BSE's trading rules, a broker buying stock only receives the share certificates in the final stages of a transaction, after money has changed hands.

So he cannot check whether he is receiving tainted stock until it is too late. The affected shares include scrip issued by Reliance Industries, the large chemicals and textiles combine, and ACC, a major cement producer.

Stock exchange officials lobbied the tax inspectorate to relax the freezing order but the inspectors have declined, saying it might hamper their investigations.

An attempt to have the matter resolved in the courts failed when the special court established to try scandal-related cases this week refused to arbitrate and referred the matter to the government. Finance ministry officials were yesterday seeking ways of resolving the issue.

The Securities and Exchange Board of India said a solution would be found in seven days. Officials of the board, the income tax department, the finance ministry and the stock exchange are to meet tomorrow.

## South Africa to attend summit

South Africa may be represented at next week's Commonwealth summit in Cyprus, Cypriot foreign minister Mr Alexios Michalides said yesterday. Reuters reports from Nicosia.

South Africa left the Commonwealth in 1961 and faced Commonwealth as well as UN sanctions until apartheid began to be dismantled.

## Generals join transition team

The Algerian government brought the armed forces openly into the political process yesterday, Reuters reports from Algiers.

It appointed three generals to an eight-man team set up to lay the groundwork for a political conference to organise a gradual transition to elected government.

## Yemen crisis deepens

The Yemen Socialist Party boycotted the swearing-in of a new presidential council yesterday, throwing into disarray plans to elect a new Yemeni president and end a political crisis, Reuters reports from Sanaa.

The swearing-in of the five-member council and the election of a new president had been seen as the start of political reconciliation in Yemen.

## Israel and PLO set out peace timetable

By Mark Nicholson in Cairo

ISRAEL AND the Palestine Liberation Organisation bristled and cordially began implementing their outline peace deal yesterday.

The two sides set a tight timetable for further detailed negotiations and established two additional committees on economic and regional co-operation.

At separate talks in Cairo and Taba, on Egypt's Red Sea coast, the two sides agreed on the institutional structures necessary for detailed negotiations.

They also opened continuous talks on the terms for an Israeli military withdrawal from the Gaza Strip and Jericho, which is due to begin on December 13.

Mr Shimon Peres, the Israeli foreign minister, wrapping up the first one-day meeting of a joint PLO-Israeli liaison committee, said in Cairo:

"We shall make a supreme effort to meet the time (for withdrawal) and if possible, attempt to do so earlier."

Both Mr Peres and Mr Mahmoud Abbas, who headed the PLO delegation, emphasised the "positive" spirit of the talks, meeting privately before the inaugural two-hour session

of the liaison committee.

Outside, sharp-suited Israeli and Palestinian security agents milled side by side, stony-faced, in the corridors of the Semiramis Intercontinental Hotel.

The leaders of the two delegations were relaxed and occasionally smiling, Mr Peres at some points translating for his counterpart.

Speaking for both, Mr Peres told reporters: "We want to build a real commodity, and that is goodwill."

He added: "Both of us have agreed that the purpose of our delegations is not to argue and create problems, but to build bridges, the right atmosphere and the right approach."

Mr Abbas declared: "We will work day and night, without being restricted by time, to solve all the pending issues which need to be settled by the deadline, in accordance with the agreement."

In a communiqué, the two sides announced that:

● The Cairo liaison committee will meet every two to three weeks at ministerial level and may create sub-committees to address the following problems:

● The Taba negotiations on limited Israeli withdrawal will be continuous; the two sides hope to reach agreement on

withdrawal within two months;

● A ministerial-level committee will be formed on economic co-operation, the dates and venues for which are to be decided;

● Further committees embracing the Palestinians, Israel and Jordan will be formed in order to hold discussions on "issues of common concern".

Separate talks should resume as swiftly as possible in Washington over next year's Palestinian elections in the West Bank and Gaza.

No date has yet been set for the twelfth round of Washington peace talks, which would also include bilateral talks between Israel, Jordan, Syria and Lebanon.

The communiqué also said that the question of tens of thousands of Palestinian prisoners held in Israel and the remaining Palestinian deportees whom Israel despatched to south Lebanon in December last year would be referred to the separate talks on limited self-rule in both Gaza and Jericho.

"The issue will be dealt with in good faith... taking into consideration the importance that the Palestinian side attaches to it," the statement added.



Israel's foreign minister Shimon Peres (left) shakes hands with the PLO's Mahmoud Abbas

## Mubarak reappoints premier

By Mark Nicholson in Cairo

EGYPT'S President Hosni Mubarak began his third term of office yesterday by reappointing Mr Ataf Sidki, his 53-year-old prime minister, who in turn announced the first moves in a long-awaited cabinet reshuffle.

Mr Mubarak promised during his inauguration speech on Tuesday that "new blood" would follow his endorsement in last week's referendum for a further six years as Egypt's head of state. He has been hinting at cabinet changes since April and last month spoke of possible "unlimited changes" in the government.

However, his first move was to reappoint Mr Sidki, a man who embodies Mr Mubarak's preference for stability and cautious reform. Mr Sidki, who formally appoints Egypt's cabinet, then announced that Mr Mohammed Salhehdin Hamid would be replaced as governor of the central bank by Mr Ismail Hassan, chairman of the Bank of Alexandria.

## Rabin denies supplying high-tech arms to China

By Tony Walker in Beijing

MR Yitzhak Rabin, Israel's prime minister, yesterday rejected as "total nonsense" reports that Israel had sold billions of dollars of arms to China, and that some of these transfers included unauthorised American technology.

"All these stories about billions of dollars in arms business are total nonsense," Mr Rabin told reporters after meeting Chinese leaders, including President Jiang Zemin and Prime Minister Li Peng.

The Israeli leader's denials of improper transfers follow written testimony to US Congress by Mr James Woolsey, director of the Central Intelligence Agency, in which he said that China and Israel "appear to be moving toward formalising and broadening their military, technical co-operation."

Mr Woolsey was speaking in advance of the publication of a CIA report that alleges China has been acquiring advanced military technology from Israel

since the late 1970s. Israel's arms sales to China could amount to "several billion dollars," the CIA report stated.

Apart from vigorously denying that Israel had sold billions of dollars of arms to China, Mr Rabin was also adamant that his country had not violated US laws in the transfer of technology.

"We are not so stupid to endanger \$3bn (£1.96bn) in grant aid we get for military and civilian purposes (from the US)," he told a press conference in the Great Hall of the People.

But the CIA assessment casts doubt on how scrupulous Israel has been over the transfer of sophisticated technology to China.

"Building on a long history of close defence industrial relations - including work on China's next generation of fighter, air-to-air missiles, and tank programmes - and the establishment of diplomatic relations in January, 1992, China and Israel appear to be moving toward formalising and broad-

ening their military technical co-operation," Mr Woolsey said.

The CIA chief added: "We believe the Chinese seek from Israel advanced military technology that US and western firms are unwilling to provide."

Allegations about an extensive Israeli-Chinese arms connection have been around for years. According to a Rand Corporation study commissioned by the Pentagon in 1991, Israel has helped China to develop a surface-to-air missile, an intermediate-range missile, an air-to-air missile, advanced armour technology for its tanks, and an airborne early warning system, among other items.

Mr Rabin, the first Israeli prime minister to visit China, said he hoped Beijing would use its close ties in the Arab world to advance the peace process. He leaves for Israel today at the end of a five-day visit in which he has been accorded special treatment by the Chinese.

## Beijing warns on Hong Kong

By Tony Walker in Beijing

MR Lu Ping, China's top official on Hong Kong, has warned that failure to resolve differences with Britain over the colony's future would threaten its economy.

Speaking in Beijing yesterday before receiving a delegation from Hong Kong's Liberal party, Mr Lu said: "If the British side sticks to (Governor) Chris Patten's plan, it shows that Britain is not willing to co-operate with the Chinese side to realise the smooth transfer of power."

"Under these circumstances, it is difficult to assure that Hong Kong's economy will not be affected."

China, which takes over Hong Kong in 1997, has been enraged by proposals advanced by Mr Patten to broaden the franchise for elections due in 1994 and 1995.

It claims these proposals fly in the face of understandings reached with Britain during negotiations over Hong Kong's future. Beijing has appeared in

recent days to be seeking to raise the stakes in its dispute with London.

China's chief negotiator in talks with Britain over Hong Kong warned this week that in the absence of an agreement Beijing would simply ignore the results of elections for local government and for Hong Kong's quasi-parliament, the Legislative Council.

Mr Jiang Zemin, a vice foreign minister, was speaking before the 13th round of Sino-British talks, all of which have ended inconclusively. The two sides resume talking in Beijing next week.

Reuters adds from Hong Kong: The leader of Britain's opposition Liberal Democratic party, Mr Paddy Ashdown, said yesterday he feared negotiations with China on Hong Kong democratic future would collapse. But he added: "I am fairly confident that Hong Kong's prosperity and economy will remain vibrant and strong right through the instability that may now be coming."

## Kenya gets a lookover before foreign creditors meet

Leslie Crawford on the visit of a World Bank team to assess whether Moi's government has mended its financial ways

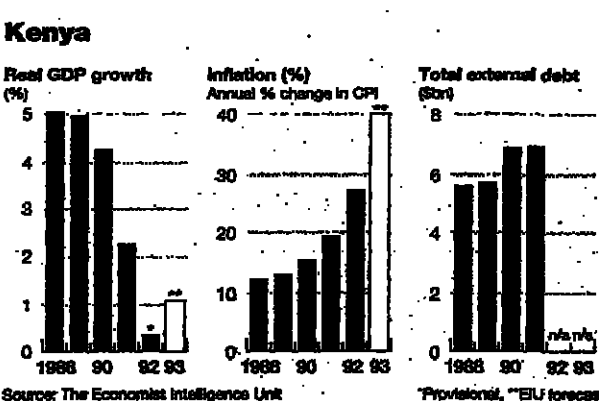
A WORLD Bank team was due in Kenya yesterday to begin assessing whether the country has mended its financial ways sufficiently to merit the resumption of international aid.

Kenya's chances of repairing relations with the donor community look better now than at any time since the suspension of aid in November 1991.

President Daniel arap Moi's government has moved to curb the worst cases of fraud and corruption in the banking and export sectors; fresh teams at the treasury and central bank are determined to fight inflation and restore a measure of probity to government accounts; and economic reforms are moving ahead.

"I believe enough has been done in terms of the basic framework to justify the re-opening of a dialogue," a World Bank official says. His cautious remarks, however, speak volumes about the chasm of distrust that still separates them.

Only six months ago, Presi-



dent Moi accused the World Bank and International Monetary Fund of forcing "dictatorial and suicidal reforms" on Kenya. But as the aid squeeze took its toll, the president recanted.

The World Bank has agreed to chair a consultative group meeting of donors in Paris next month. An IMF team is due in Nairobi soon to discuss the details of a three-year economic reform programme

which would form the basis of an appeal for renewed assistance at the Paris meeting.

The World Bank is warning Kenya not to expect the aid floodgates to open wide. "A return to normal aid flows will depend on the delivery of results," says one World Bank economist.

"Kenya's relations with donor governments are so badly damaged that it will need to establish a track

record of sound economic management."

What cannot be delayed for much longer, however, is a rescheduling of the country's \$7bn (\$4.57bn) foreign debt. Kenya has dealt with the lack of external assistance by accumulating more than \$600m in debt-servicing arrears - the equivalent of about five months of export revenues.

"Debt arrears are a millstone around our neck," says Mr Michael Chesherem, the central bank governor, who was appointed in July. "We need creditors to write off at least part of the arrears." The 44-year-old governor, a former accountant with Unilever, believes Kenya deserves a measure of debt forgiveness, as debt service now consumes 30 per cent of export earnings.

The aid freeze has also left its mark on the once-vibrant economy, which has in effect stagnated over the past two years and creates formal sector employment for only a small fraction of the 400,000 job seekers entering the labour market

each year. The result has been rising crime, child beggars on the streets of Nairobi, and hunger in the Rift Valley, where drought has blighted the maize crop.

Kenya is also suffering the aftermath of financial scandals that rocked the banking system this year. Unsecured loans by the central bank to local banks with ties to influential politicians led to a massive expansion of the money supply and fuelled inflation.

In July, the government closed four of the scandal-tainted banks and started placing high-interest treasury bills on the market to mop up excess liquidity and curb inflation.

Inflation, however, is still running, on some estimates, at an annual rate of 54 per cent, compared with 27 per cent at the end of 1992. The rate is expected to fall only towards the end of the year.

"Nineteen ninety-three will not be a great year," says Professor Terry Ryan, an economic secretary at the trea-

sury. The only bright spot, he says, is the export sector which has benefited from devaluation of the shilling.

Estimates of Kenya's economic performance in 1993 vary from a contraction of 2 per cent to expansion of 2 per cent. Kenya's population grows by 3.4 per cent a year.

But if Kenya is to reach agreement with the IMF, more unpalatable reforms lie ahead: job losses in the civil service, parastatal reform, and the abolition of the government's maize-marketing monopoly, with the attendant loss of the government's ability to dispense political favours.

Mr Chesherem and Mr Musalia Mudavadi, the finance minister appointed in January, say they are committed to an IMF-style structural adjustment programme.

"I want to divorce politics from economic management," Mr Chesherem says, "and reduce opportunities for graft."

Opposition economists, however, believe the new economic team lacks the political clout

to sustain painful reforms.

"Will [President] Moi find the political costs too high?" asks Mr Mwai Kibaki, leader of the opposition Democratic party and a former finance minister. "Under pressure, Moi will promise many things, but he will not change."

Even Mr Chesherem admits that his independence depends on the president's goodwill. He calls Mr Moi the country's "chief economist" and says the president wants policies that will generate employment. Given that IMF programmes rarely create jobs in the short run, difficult negotiations lie ahead.

Mr Moi told Kenyans on Sunday to be wary of foreign hand-outs. "We cannot risk relying on foreigners to develop our country because at most times, their priorities are different from ours," he said in an address to celebrate "Moi Day" and his 15 years in power.

In Paris next month, donors will be trying to establish exactly what those priorities are.

Kenya



## US Congress attacks curbs on copyright

By Lisa Branstetter and Nancy Dunne in Washington

THE US Congress is launching a direct attack against Canadian and EC restrictions on US "creative materials", raising yet another potential obstacle to the timely conclusion of the Uruguay Round.

In a move to bolster growing US exports of copyrighted materials such as films, television shows and computer software, 199 members of the House of Representatives are co-sponsoring a resolution insisting that Mr Mickey Kantor, US trade representative, gain "fair and equal access" to international markets.

The resolution implicitly targets both Canada's cultural restrictions and the EC Broadcast Directive, which urges member states to ensure that at least 50 per cent of programming is produced in Europe. The latter was on the agenda in talks between Mr Kantor and Sir Leon Brittan, the EC trade negotiator.

European officials have been hoping the US would, in the end, not make a "round-breaker" of France's requirement that at least 60 per cent of its programming be European.

An aide to Congressman Richard Gephardt, who intro-

duced the measure, predicted the resolution soon would attract more than a majority of the 435 members of the House. Nineteen members of the Senate have signed a similar resolution introduced by Senator Frank Lautenberg.

The resolutions are non-binding, but they exert strong pressure on Mr Kantor, who knows he must negotiate a Uruguay Round package that Congress will pass. One trade strategist noted that they "make our position much less flexible and that can be good or bad".

The French, he added, have been "incredibly provocative" with threats to boycott US films to protect their movie industry.

The resolution also calls for access to foreign government funding of "cultural industries" and the establishment of a multilateral mechanism to prevent piracy of copyrighted goods, particularly US-developed computer software.

Both resolutions cite trade in copyrighted goods as among the fastest growing sectors of the US economy accounting for approximately \$34bn in export revenues in 1990. The proportion of US workers employed in the copyright-based sector grew from 3.3 per cent in 1970 to 4.8 per cent in 1990, according to the resolution.

## Japan given deadline on alcohol taxes

By Michio Nakamoto in Tokyo

THE European Community and spirits-exporting countries have given Japan a deadline of next April to meet its obligation under the General Agreement on Tariffs and Trade to harmonise its liquor taxes.

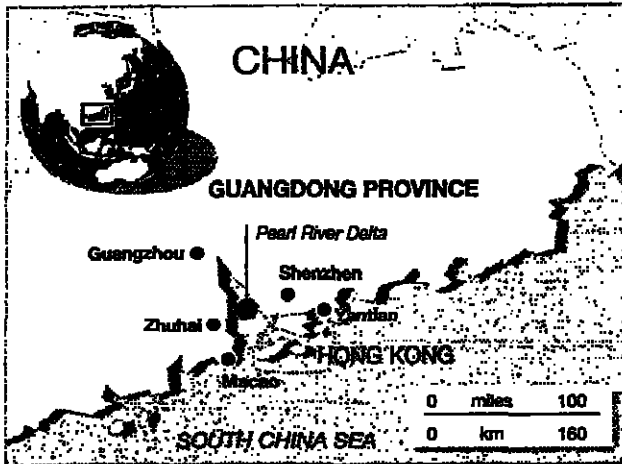
The deadline was presented to Japanese officials by a delegation of international spirits exporters and comes six years after a 1987 Gatt ruling that Japanese liquor taxes discrimi-

nate against imports. "At a time when the trade imbalance of the EC and Japan is in excess of \$30bn (£19.8bn), the implementation of the 1987 Gatt ruling is one of tremendous importance to us," said Mr Ron Brown, chairman of the European Business Community Liquor Committee.

As a result of the discriminatory tax system, whisky and brandy pay six to nine times more tax than shochu, a traditional Japanese distilled liquor.

## Alternative port in storm over Hong Kong

Simon Davies on the implications of development plans for a mainland entrepôt



IN SPITE of Hong Kong governor Chris Patten's warnings last week of the enormous costs to both China and Hong Kong of delays to the expansion of the colony's port, Beijing must be feeling more sanguine about the issue.

The day before Mr Patten's comments last Wednesday, one of Hong Kong's most influential businessmen signed up for an almost identical project in Yantian, which is just eight miles east of the territory's border with China.

The acquisition of control of Yantian's port by Mr Li Ka-shing's Hutchison Whampoa group - a deal witnessed by China's premier Li Peng - inevitably raises concerns over whether Hong Kong's role as China's entrepôt can be replicated.

As Mr Patten told Hong Kong's Legislative Council last week, the colony's port remains crucial to its economic development. It employs 350,000 people and generates 15 per cent of the colony's gross domestic product.

The boom in export processing in the Pearl River delta has been the main driving force behind Hong Kong's economy in recent years. In 1992, Hong Kong's throughput in TEUs (twenty-foot equivalent units) grew 23 per cent, making it the busiest container port in the world. Trade expands apace and the existing terminals will reach full capacity by mid-1995.

This coincides with the planned completion of Container Terminal 9 (CT9), but as China continues to argue that its approval is necessary - ruling out funding for the consortium who were awarded the HK\$10bn (£250m) project - it is

clear that it will not be operational until 1996. As Mr Patten warned: "Ships will be turned away, and they may not return to use our port."

At the same time, rising costs and increasing congestion in the colony have already added to the attraction of constructing facilities in mainland China, which would be both cheaper and closer to the source of production.

The newly-capitalised Yantian International Terminals will have constructed five

50,000-ton container berths by the end of 1995, creating handling capacity of 1.7m TEUs.

The proposed CT9 will have four berths with capacity of 1.8m TEUs, but its estimated cost is about double the Yantian (at the official swap centre rate) that is being invested in Yantian.

The Hutchison group, which controls around 60 per cent of Hong Kong's container throughput, has in effect hedged its bets. It will be a participant in Terminal 9, but it has also purchased 50 per cent of the port operations in the cities of Shanghai and Zhuhai - to the north of Macao - and it controls a consortium which will own 70 per cent of Yantian.

According to Mr John Meredith, managing director of Hutchison subsidiary Hong Kong International Terminals (HIT), the group is not anticipating future changes, but reacting to demand which already exists.

In the case of Zhuhai, which will remain a feeder port, HIT will bring in more container business for Hong Kong, while the port in Shanghai is too distant to be deemed a serious

competitor. Yantian, however, is one of only four international deep water ports designated by China, and it has the draught and infrastructure to absorb substantial shipping business which might otherwise go through the colony.

Mr Meredith said: "When we looked at Yantian five years ago, people only wanted to use Hong Kong. Now the demand is there."

Hong Kong does maintain substantial advantages to justify the higher costs of both construction and utilisation. Mr Tony Clark, secretary of Hong Kong's Port Development Board, maintains that it would take up to 10 years before China's ports could pose a competitive threat because of their tangled bureaucracy, inadequate infrastructure and lack of shipping support services.

Yantian, however, has rail and road links already in place, and it will have a bonded zone, enabling it to by-pass customs procedures and operate as a trans-shipment centre. In addition, it does not suffer siting from the Pearl River. And it will be cheap.

Hong Kong operators remain confident that the cake is growing so rapidly that there is enough for everyone. Even factoring in growth in business for China's ports, the Hong Kong government has forecast that its overall port traffic will increase by an annual average of 8 per cent between 1990 and 1995.

Mr Clark said: "Looking at the amount of cargo originating from southern China, it is very clear that Hong Kong alone will not be able to cope. China will need more than Hong Kong to sustain its trade."

This assumes that Hong Kong is able to maintain the capacity and efficiency of its port in the face of the new competition, but the political impasse over Terminal 9 demonstrates no such assurance.

Mr Patten claimed that if the project was delayed by just two years, Hong Kong's economy would lose HK\$20bn in the decade after 1997. With the signing of the Yantian deal, the resolution of the Terminal 9 dispute may have become less pressing for either Hutchison or Beijing. For Hong Kong, the outcome remains critical.

## Romania granted MFN status

By Virginia Marsh in Bucharest

THE decision by the US Congress to grant Most Favoured Nation status to Romania has normalised relations between the two countries and will help Bucharest continue with market-led reform, the Romanian government said yesterday.

Tuesday's vote in the House of Representatives overturns a decision by Congress last year. Other countries denied MFN status include Cuba, Vietnam and North Korea. A few ex-Soviet republics are applying.

Since 1988, when dictator Nicolae Ceausescu unilaterally cancelled MFN, Romanian exports such as furniture, glass and textiles have faced 35-90 per cent US tariffs.

## Europe's culture industry seeks opt-out from Uruguay Round

By David Gardner in Brussels

AN APOCALYPTIC future for European culture was painted by EC film producers yesterday, if the cinema and audiovisual sectors are included in the Uruguay Round of Gatt.

Figures from Europe's cinema industry lobbied the European Commission yesterday to get the sector taken out of the Round, warning that unless it is "Europe will become a Third World continent," in the words of Mr Wim Wenders, the German film director.

The Commission wants film and broadcasting to have the shield of Gatt rules, and says it is fighting for "cultural specificity" for the sector, allowing some protection and continuing subsidy. France, with back-

ing from other member states such as Spain wants a "cultural exception" exempting cinema altogether.

A range of mostly French industry groups argued yesterday that Europe would be swamped by Hollywood in a Gatt-regulated open "culture market." They pointed out that US film export revenues rose from \$750m (£490m) in 1980 to \$5.5bn last year, and that \$3.7bn of 1992 sales were in Europe.

EC attempts to reserve a majority of screening time on television to European work has not blunted US penetration of the EC market, they said.

Mr Wenders said the audiovisual industry would be the biggest on the planet in the next century. Europe had to

decide whether its modest share would continue to exist or not, before the Uruguay Round mid-December deadline.

"There is a war going on, and the most powerful weapons are images and sound," he said. "To have a market dominated by American imagery means not only domination by American values and American ideas, but that other (EC-made) products would disappear," because of concomitant US domination of advertising.

Sir Leon Brittan, EC chief trade negotiator, was expected to discuss the issue with US trade representative Mickey Kantor at a new round of Gatt talks in Brussels yesterday.

US officials say they are relatively relaxed about subsidies for EC film-makers, but would

not agree to quotas or other impediments to US audiovisual products entering the EC.

When the controversy was aired by EC foreign ministers last week, Sir Leon insisted that leaving the sector outside Gatt would leave it vulnerable to US trade reprisals - although Europe's film and TV industry earned US revenues of only some \$250m last year.

He picked up a reference from Mr Alain Juppé, France's foreign minister, to Franco-Quebec securing a "cultural exception" inside the US-Canada free trade agreement, due to be carried over into the North American Free Trade Agreement embracing Mexico.

Sir Leon said this still left the Canadians vulnerable to US "301" trade legislation.

## Power plant resumption in Kuwait

By Tyneside consulting engineers Merz and McLellan

are to resume work on the 2,400 MW Sabiya oil and gas fired power station in Kuwait, more than three years after the Gulf War halted work on the project, Chris Tighe reports.

The company was awarded the station design and project management contract in 1988, but Merz engineers were taken hostage in Kuwait at the outbreak of the war.

The new £17.5m contract from Kuwait's Ministry of Electricity and Water involves three years' work at Merz's Newcastle head office, and seven years on site. Merz and McLellan also announced yesterday it had won power station contracts worth £2.6m from Syria and Hong Kong.



Edoardo Volonteri, Country Manager Akzo Coatings Italy

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# Greenspan warns against cutting Fed autonomy

By Michael Prowse in Washington

ATTEMPTS by Congress to reduce the independence of the US Federal Reserve would be a "major mistake," Mr Alan Greenspan, the Fed chairman, warned yesterday. He was reacting to proposals by a congressional committee to make regional Fed presidents political appointees.

Mr Greenspan said the Fed's structure reflected a fine balance between federal and regional, public and private interests. More political control over interest rates would "impart an

inflationary bias to the economy and could lead to instability, recession, and economic stagnation".

He argued that most countries were taking steps, or considering action, to increase the independence of their central banks.

Mr Greenspan did, however, concede that greater efforts were needed to lift the pace at which women and minorities were promoted to senior posts within the Fed system.

The Fed chairman was giving testimony at a congressional hearing called by Mr Henry Gonzalez, the

Democratic chairman of the house banking committee. Mr Gonzalez has proposed legislation that would give President Bill Clinton power to appoint the presidents of the 12 regional Federal Reserve banks, subject to confirmation by the Senate.

The regional presidents play an important role in US monetary policy because, in rotation, they hold five of the 12 seats on the Federal Open Market Committee, the body that sets US short-term interest rates. The rest are held by the seven Washington-based Fed governors.

Under current rules, regional presidents are elected by the boards of the regional Fed banks. A majority of directors of these boards are elected by local private-sector banks.

Mr Gonzalez and many other legislators say this makes the Fed an undemocratic and unaccountable institution. It is the only branch of government where private citizens are allowed to play an important role in determining public policy.

Mr Greenspan has been careful to maintain cordial relations with the Clinton administration, which shows

no sign of supporting congressional initiatives to reduce the Fed's independence.

However, Republicans are also uneasy about the Fed's anomalous structure. At yesterday's hearing, Mr Jim Leach, the ranking Republican member of the banking committee, said the present system was "undefensible".

He drew attention to the Fed's regulatory responsibilities, and said it was unseemly that private-sector bankers were effectively regulating themselves.

He opposed Mr Gonzalez's pro-

posed reform, arguing that public accountability could be assured by the less drastic step of making the Fed governors (who are appointed by the White House) responsible for appointing the regional presidents.

Mr Greenspan rejected Mr Leach's proposal, arguing that it was unwise to tamper with a system working well.

Under present rules, Fed governors confirmed the appointment of regional Fed presidents and, if necessary, could demand their resignation.

## Belize to seek UK military support

By Canute James in Port of Spain

MR Manuel Esquivel, prime minister of Belize, is to ask Britain for further assurances of military support if the Central American country is threatened by neighbouring Guatemala.

Mr Esquivel, who will visit Britain between Sunday and Wednesday of next week for discussions with government officials, said he was increasingly concerned at continued instability in Guatemala, where the congress and the supreme court have rejected a demand from President Ramon de Leon Carpio that they resign.

"All this could provide an opportunity for those elements in Guatemala which always want to raise the issue of Guatemalan claims to Belize," Mr Esquivel said. "All this concerns us as it could result in the overturning of former President Jorge Serrano's recognition of Belize."

Guatemala's 130-year-old territorial claim to Belize was ended last year by a pact between the then-president Serrano and Mr George Price, the former premier of Belize, in which Guatemala recognised Belize as an independent nation.

Worries that the Guatemalan military might invade Belize in pursuit of the territorial claim led to the stationing of a 1,500-strong UK garrison in Belize. Earlier this year the British government said it intended to withdraw the garrison, but would use the facilities for military training.

The garrison has contributed significantly to the economy of Belize. Mr Esquivel said a new budget next month would take account of the impending loss of income, as well as under-estimated expenditure and over-stated revenue in the previous budget.

## Guatemalan soldiers hunt rebels

GUATEMALAN soldiers have been searching for leftist rebels around the town of San Marcos after a sudden flare-up in fighting, a military spokesman said. Reuter reports from Guatemala City.

Soldiers were patrolling western Guatemala after the battles which occurred between Friday and Monday, he added. Three soldiers and a guerrilla were killed and 24 people injured in the clashes.

From Mexico, a news agency believed close to the rebel Guatemalan National Revolutionary Unit said the clashes were part of a national offensive against the Guatemalan army. President Ramiro de Leon has accused the rebels of replying with bullets to a peace plan presented to them last week.

## Argentina hopeful over Falklands poll

By John Barham in Buenos Aires

THE Falkland Islands go to the polls today, with a record 35 candidates competing for the eight seats on the local council.

The elections are arousing particular interest in Argentina, which fought a 74-day war over the islands with Britain in 1982, and still claims sovereignty over the islands.

Mr Guido di Tella, Argentina's foreign minister, claims the elections will bring a more "enlightened" group of councillors to power who will be more willing to talk to Argentina.

However, the chances are that such hopes will be disappointed. None of the candidates, who run as individuals rather than under the party banner, is willing to have more contact with Argentina than is strictly necessary until it drops its sovereignty claim.

## Anti-trust extension 'could increase conflict with UK'

By Robert Rice, Legal Correspondent, in New Orleans



A US Supreme Court ruling that extends US anti-trust laws to the activities of London-based reinsurers could lead to increased conflict between the UK and the US, a British trade official has warned.

At the end of June the Supreme Court ruled that US courts had jurisdiction over alleged collusive action between reinsurers at Lloyd's and US primary insurers, even though the alleged behaviour of the Lloyd's underwriters

conformed to the UK's insurance regulatory regime.

Mr Edmund Hosker, who is based at the British embassy in Washington, told the International Bar Association meeting in New Orleans that the most troubling aspect of the decision was that it was a retreat from a previous position, which required US courts to balance the competing interests of jurisdictions involved before assuming jurisdiction itself.

There had been conflict between the US and UK over anti-trust issues before, most notably the Westinghouse uranium case in the 1970s which resulted in the UK's passing a blocking statute to reduce the impact of US anti-trust laws on UK companies.

Mr Hosker said he feared the Supreme Court decision would encourage state authorities and private plaintiffs in the US to launch anti-trust cases against foreign companies over activities which were entirely acceptable under their own regulatory regimes.

"I fear it may also reduce the incentive to co-operate with US regulatory authorities in the anti-trust sphere and could result in foreign governments making wider use of blocking statutes," he said.

The Supreme Court had indicated there was not a conflict between the UK and US in the reinsurance case, but the British government had made it clear in three amicus briefs filed with the courts that

restrictions on UK reinsurers operating in US markets did create a conflict.

"If the position is reversed it is difficult to see the US not complaining," he said.

Mr Hosker said the only way to limit potential for conflict was to continue efforts to increase co-operation between US and UK competition authorities.

Ms Diane Wood, the US deputy assistant attorney general for trade policy, said Mr Hosker was exaggerating the potential for conflict over the issue.

There were always going to be overlaps of jurisdiction, she said, but that did not necessarily mean an increase in conflict.

## Family creditor could upset Brazilian debt negotiations

Stephen Fidler looks at the role of a private non-bank investor

AN IMPASSE between the Brazilian government and its fourth largest private foreign creditor - the Dart family of the US - emerged this week after Brazil rejected the family's offer to participate in the country's commercial bank debt restructuring.

The family holds around \$1.4bn in face value of bank loans to Brazil, or about 4 per cent of the commercial bank debt covered by the restructuring. It describes the debt - bought at a discount in the secondary market over the last two years - as a long-term investment. The family owns Dart Container and made its fortune from the development of the polystyrene cup.

The deadlock could, if not resolved, delay completion of the accord. It also raises questions about the growing proportion of developing country bank loans now in the hands of private non-bank investors. Restructuring agreements have for more than a decade been negotiated by leading creditor banks appointed by debtor governments sitting on a so-called advisory committee. Non-bank investors have never been asked to sit on a committee, although they now often hold more than half of the outstanding bank debt of a developing country.

Dart family complained that it "was never consulted during the negotiations that resulted in the Brazil financing plan" despite its position as the fourth-largest holder of Brazilian debt.

However, from the banks and the debtor governments' point of view, the emergence of private investors may further complicate the already agonis-

ing process of debt restructuring. For one thing, such private investors are not susceptible to the persuasion from bank supervisors which has been evident in past restructuring agreements.

Brazil is the last of the big four Latin American debtors - after Mexico, Venezuela and Argentina - to be negotiating a debt reduction accord, but the deal could have an impact on future debt accords. Debt settlements for Peru and Ecuador, for example, have yet to be reached.

The dispute has arisen over the restructuring of \$35bn in debt. Terms were negotiated between the government and an advisory committee of 19 banks, but the completion of the accord is still awaiting, among other things, the final agreement of the hundreds of creditors that hold the debt.

Non-bank investors have never been asked to sit on an advisory committee, although they now often hold more than half of the outstanding bank debt of a developing country.

Creditors were offered the choice between six types of financial instrument aimed at reducing the country's debt burden. Brazil negotiated the right to request changes in the eventual allocations because some instruments implied a higher cost to the country than others.

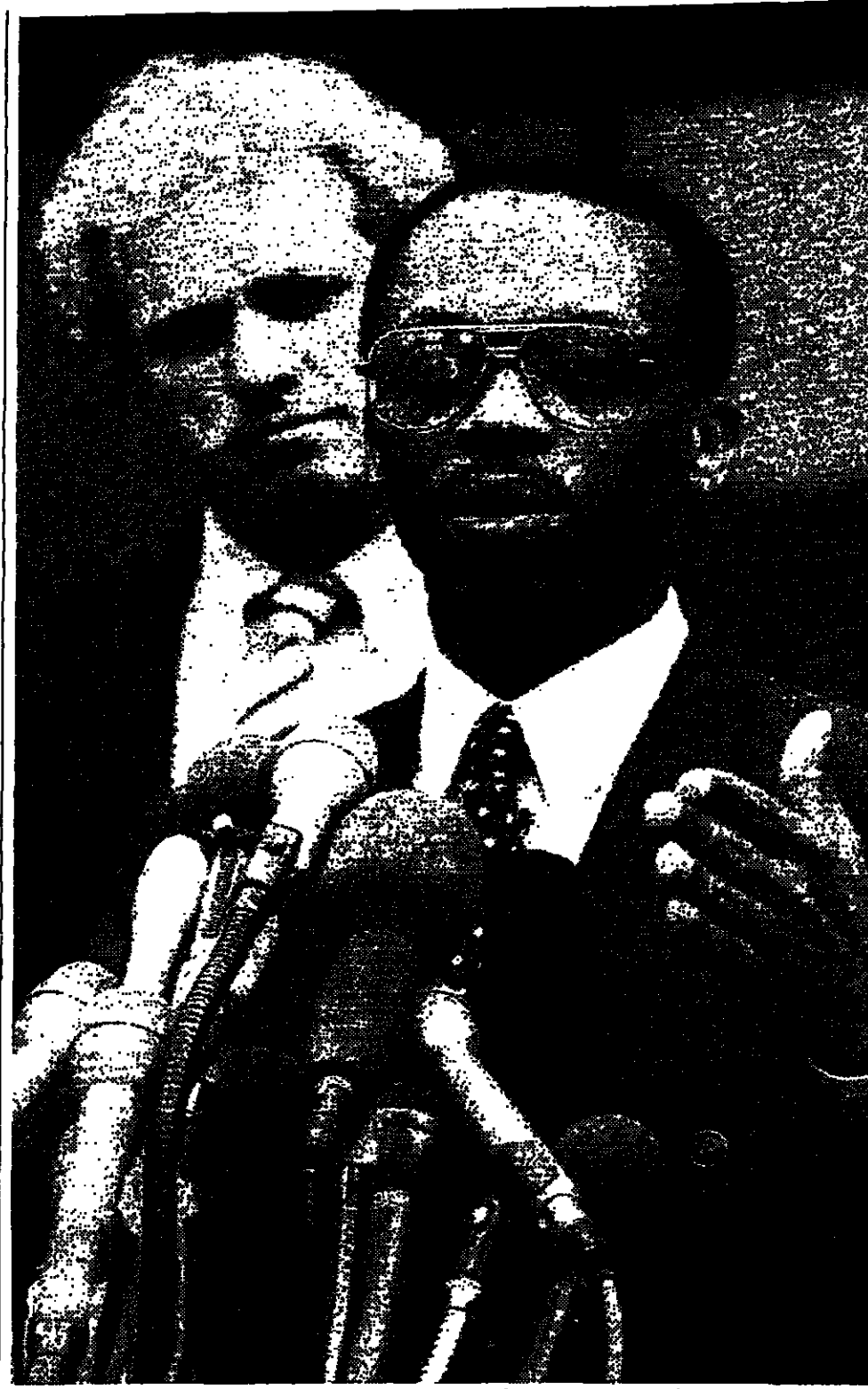
The Dart family said this week that when the restructuring plan was first announced in September 1992, they were encouraged by the Brazilian

government to exchange their loans for bonds which did not carry collateral. US Treasury zero coupon bonds are to be pledged against some of the options to guarantee principal or some interest payments, and the government was worried about the cost of this collateral.

The family opted for so-called "C" Bonds, 20-year instruments which carry interest rates of 4 to 5 per cent for the first six years and 8 per cent for the rest of their lives. The difference between 8 per cent and the lower interest rates in the bonds' early years is rolled up into capital.

The Darts calculate that by choosing this option, they would save Brazil more than \$200m in up-front capital costs that would have been needed to buy the collateral. Nonetheless, they were asked to shift their choice by the government. According to their statement, the Darts refused, professing satisfaction with their original commitment. This week Brazil "had seen fit to reject that commitment".

A spokeswoman emphasised that the shifting of options was voluntary. She said the family now regarded the "chapter as closed" and would expect Brazil to service its existing credits. The response from the Brazilian side is as yet unclear.



Exiled Haitian president Jean-Bertrand Aristide calling for renewed sanctions against his country to force its military rulers to honour a UN-brokered peace deal. The US has suspended plans to put 600 military advisers in Haiti after gun-wielding militants stopped a Navy ship from docking.

## Minimum wage rise warning

By Jurek Martin in Washington

THE desire of the Clinton administration to raise the federal minimum wage, restated this week by Mr Robert Reich, labour secretary, is already meeting stiff resistance from business.

Mr Reich said he was thinking of recommending an increase of 50 cents to \$4.75 an

hour. However, he added that some of the increment might be accounted for by new healthcare benefits for low-paid workers. The last increase, from \$3.80 an hour, was in 1991.

Nearly 5m officially-employed Americans are being paid the federal minimum, or less, Mr Reich, arguing this base figure was worth 30 per

cent less in real terms than 25 years ago, doubted that an increase would have any negative impact on unemployment. Organised labour has been pushing for a rise to \$5.25 an hour for over two years.

However, spokesmen for small businesses, especially the hotel, fast-food restaurant and retail trades, countered that job losses were inevitable.

## Guzman 'peace offer' may bring end to Peru terror

Sally Bowen on imprisoned guerrilla leader's videotape call for his followers to end their struggle

THE long war waged by hard-line Sendero Luminoso (Shining Path) guerrillas against the Peruvian state could be drawing to a close that would have been inconceivable little more than a year ago.

President Alberto Fujimori made public at the weekend a video recording in which Abimael Guzman, Sendero's founder-leader, repeated his call for peace talks. In a script which could almost have been written by Mr Fujimori himself, Mr Guzman admitted the success of the Peruvian government's counter-subversion strategy, "especially in the area of intelligence."

Mr Guzman said his capture and that of other high-ranking Sendero leaders had raised "fundamental

questions of leadership" within the organisation. The party confronted "a great and historical decision," he said. With the same "firmness and resolution" that they had embarked upon the "people's war" 13 years ago, they should now "fight for a peace accord," he said.

The self-styled "fourth sword of Marxism" (after Marx, Lenin and Mao), however, has not recanted. On the contrary, he claimed to have used classic communist concepts to "make a concrete analysis of a concrete situation."

Mr Fujimori, for his part, has repeated what he said in his address to the UN general assembly on September 30 - that there can be no negotiations, only "conversations." Mr Guzman, after all, has been con-

victed of terrorism and, under Peruvian law, sentenced to life imprisonment; Sendero Luminoso has never been accorded belligerent status. Concessions would be limited to a relaxation of Mr Guzman's rigorous prison conditions, which appear to have affected him profoundly.

In the video recording, the long-haired Sendero leader looked a shadow of his former combative self. Clean-shaven, smartly dressed, much slimmer and with his greying hair apparently tinted, he was filmed alongside companion and chief lieutenant Ms Elena Iparraguirre, obediently copying out his peace letter and signing it.

Although Mr Fujimori coyly refuses to confirm it, the psychological victory over Mr Guzman seems

to belong to Mr Vladimiro Montesinos, the shadowy former army captain who has become the president's chief adviser. Mr Montesinos first made contact with Mr Guzman last October in the early days of his captivity when their conversations ranged over philosophy, history and politics. In recent months, Mr Montesinos has frequently been the president's emissary to the Calao naval prison.

It seems clear from the recent series of Guzman-Iparraguirre videos that Mr Montesinos succeeded in winning their confidence. Part of what Mr Fujimori called the "psychological war" against Mr Guzman included allowing the pair to celebrate Ms Iparraguirre's birthday together. Mr Fujimori himself sent a

cake and a small personal gift.

Military experts interpret the two Guzman letters as a message to Sendero militants that the "sixth plan" - which commenced in January 1992 and which the captured Mr Guzman had previously urged followers to continue with - should be abandoned.

Some analysts believe the "peace offer" may be a strategy to allow the hard-hit organisation to gain time and regroup.

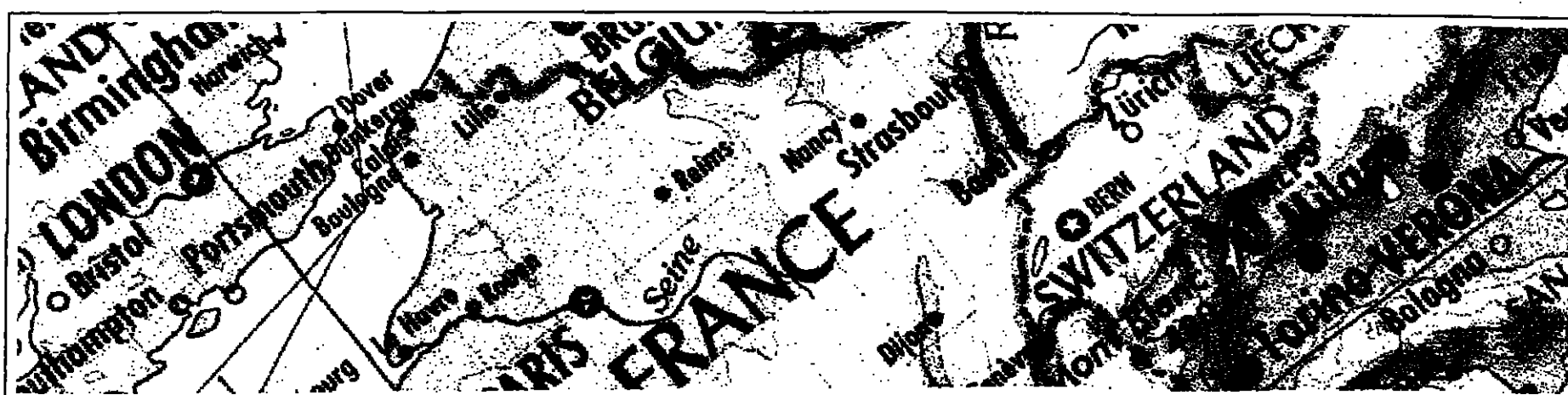
But, even if it is sincere, it may not be obeyed. An anonymous member of Sendero's "metropolitan committee," quoted in a Lima magazine, denounced the videos as "a government trick to deceive the people." He said the armed struggle would continue and forecast attacks in the

near future against banks and selected government officials.

Within hours of the most recent video broadcast, a Sendero column attacked a village in Ayacucho province and hacked 15 villagers to death in reprisal for forming an army-backed civilian militia.

"In far-flung areas of Peru, it may take longer for pacification to come about," Mr Fujimori said.

The government is planning to modify the current "repentance laws" to encourage more disaffected Sendero supporters to surrender. Sendero expert Mr Carlos Tapia estimates some 600 militants have been killed and another 2,400 captured, accounting for about two-thirds of the group's active combatants. Few have voluntarily surrendered.



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# N-plant plan fuels row on atomic power

By Michael Smith

NUCLEAR ELECTRIC, the state-owned utility, is expected to fuel the growing controversy over atomic power today by submitting a planning application to build the country's biggest nuclear station, at Sizewell in Suffolk.

The company is to brush aside official concerns that submitting an application for the £3.5bn twin reactor will complicate the controversy surrounding the Thorp nuclear reprocessing plant at Sellafield in Cumbria, the future of which is under government review.

Mr Tim Eggar, energy minister, is likely to be non-committal today about Nuclear Electric's submission, arguing that it is a decision made by the company's board but not encouraged by him.

Sizewell C would be the biggest civil engineering project in the country, providing more than 15,000 jobs during the 10 years of its construction and commissioning, according to the company.

The submission for the reactor will anger environmentalists. They believe Nuclear Electric should hold back until the end of the government's nuclear review. That is due to start later this year and will examine whether further nuclear stations are necessary. Sizewell C, the proposed plant, would have a capacity of 2,600 megawatts. That is more than twice the capacity of Sizewell B, Nuclear Electric's other pressurised water reactor station, which is nearing completion on an adjacent site.

Nuclear Electric's claim that Sizewell C would produce electricity at 3p a unit is disputed by environmentalists, who argue decommissioning costs and dealing with waste could take the price above that and make state subsidies essential.

Confirming Nuclear Electric's submission plans Mr Bob Hawley, chief executive, said that the planning, building and commissioning process would take some years. "The earliest we can commission the station is 2001," he said. "We do not want to pre-empt the nuclear

review nor will we be able to do so. But we believe strongly a replacement is needed for the Magnox nuclear stations which will be phased out around the turn of the century."

An application by the Central Electricity Generating Board, Nuclear Electric's predecessor, to build Sizewell B resulted in a three year public inquiry in the mid-1980s. Nuclear Electric hopes to avoid a similar delay on Sizewell C by arguing that the safety implications have already been examined in the B inquiry and another at Hinkley Point.

The economics of the project are likely to be examined in the nuclear review. The company says any inquiry into Sizewell C should therefore be restricted to general planning issues such as site access.

Environmentalists are certain to press for a more wide-ranging review.

Nuclear Electric generates about 23 per cent of England and Wales's annual electricity requirements and Mr Hawley says it would not expect to go much beyond 30 per cent.

## UK spending on business travel set to rise by 9%

By Michael Skapinker, Leisure Industries Correspondent

BUSINESS travel expenditure is expected to show a bigger rise in the UK this year than in any other European country except Hungary, according to a survey published yesterday by American Express.

Its survey of 3,500 companies in 10 European countries found that UK business travel spending is expected to rise 9 per cent this year to £19.2bn.

This follows declines of 2 per cent last year and 9 per cent in 1991.

Expenditure in Hungary is predicted to grow by 14.3 per cent from a low base. Spanish spending will rise by 14 per cent. Travel spending is expected to fall 6 per cent in Germany, 4 per cent in France, 11 per cent in Sweden and 5 per cent in Switzerland, the survey says.

The largest increases in UK expenditure are expected to occur in the energy and chemicals sector, manufacturing and retailing.

Financial services and construction are expected to show the smallest rises, while travel expenditure will decline in the transport and communications sector.

The UK has the highest proportion of women business travellers in Europe, accounting for 23 per cent of the total. The proportion has doubled since 1989.

In financial services companies, 44 per cent of business travellers are women. Spain had the second highest proportion of women travellers at 17 per cent, followed by Switzerland at 14 per cent and Sweden at 12 per cent.

Just 11 per cent of senior UK managers fly first class on long-haul flights, with 48 per cent travelling business class, 26 per cent economy and 15 per cent having no fixed policy.

The proportion of first-class UK flyers is in line with the European average, but is below countries such as Spain, where 21 per cent fly first class, and Belgium where the figure is 19 per cent.

## Britain in brief



### Timex vote on cash settlement

Former employees of Timex in Dundee will vote today at a mass meeting on whether to accept ex gratia payments from the US based company to end the bitter ten month dispute that led to the closure of the plant. The company said last night that the initiative for the cash inducements came from the executive council of the AEEU engineering and electrical union and it had made a "constructive response".

Despite the shutdown of its Dundee operations Timex has continued to face industrial action including a global boycott from the strikers. The proposed cash settlement is an attempt to bring a close to one of the fiercest industrial conflicts for many years.

for elections for the European parliament would be resisted by the government, Earl Ferrers, Home Office minister, told the House of Lords.

He told the second chamber of the British parliament that the unanimity rule would apply when the issue was discussed by the EC council of ministers.

Lord Ferrers said the government saw no reason to depart from the existing first-past-the-post system, and it would not be forced into adopting a system it did not want.

The committee stage of the European parliamentary elections bill, which has already been approved by the House of Commons, was completed.

### Kent business to co-operate

Small chambers of commerce in Kent are joining together to promote the county's attractions as a business centre in competition with Continental European markets.

The Kent Chamber of Commerce and Industry is intended to boost exports, improve the quality of business information and strengthen training. Kent's

fragmented chamber network, just across the Channel from powerful, publicly funded chambers in France and Belgium, has long been seen as an example of the weakness of the British system.

Mr Martin Graham, chief executive of the new Kent chamber, commented: "A Spanish businessman visited one of our chambers up a dingy flight of stairs and said: 'Are you serious?'"

### Soldier wins race damages

A black soldier was awarded £8,500 by an army inquiry board yesterday for suffering racial abuse from other soldiers. He received £5,000 for injury to his feelings and £1,500 aggravated damages.

The board found that Corporal Jake Malcolm's posting to the Lifeguards (Royal Electrical and Mechanical Engineers) in Germany was altered because of his colour. He is still a senior clerk with REME.

An army board of inquiry upheld his complaint. "We are satisfied from the evidence to the board that Corporal Malcolm's posting was changed because of his colour," it said.

The Central London Law Centre said it was pleased that the army had been ready to investigate and recognise the discrimination that took place but added it was a pity Corporal Malcolm had to go so far as to bring a civil legal claim to have the matter dealt with.

### Oil drilling to start off Dorset

An oil drilling rig is expected to be towed into Poole Bay, off the Dorset coast, this week to start six to eight weeks of exploration in the environmentally sensitive area.

The rig, which will be about 8km offshore, will drill into a rock structure about 2,000 metres beneath the sea bed. Elf Enterprise, a joint venture between Elf of France and Enterprise Oil, the UK independent exploration and production company, stressed that "safety of people and the environment will be our first priority".

Previous explorations in Poole Bay triggered protests by environmentalists and the local fishing industry, which last year organised demonstrations against a large-scale seismic survey of the area.

## Kuwaiti ministers may visit Britain to discuss BP deal

By Robert Peston

THE KUWAITI finance and oil ministers are planning to meet British government ministers to discuss the £600m in tax which the Gulf State may owe on its investment in British Petroleum shares.

"I understand they are due [in the UK] soon," said a senior Kuwaiti adviser.

The Financial Times recently reported that the Gulf State may have abused its sovereign immunity from taxation in relation to its purchase in the late 1980s of a stake close to 22 per cent in BP.

It has received more than £600m in tax refunds on income from the BP shares to which it may not have been entitled, because the shares were purchased by the Kuwait Petroleum Corporation and were not a direct investment of the Kuwait state, as originally claimed.

The adviser said that it would be unwise for the UK to press for repayment of the £600m, because UK exports to Kuwait, especially defence contracts, could be jeopardised. He said it would be better for the two countries to come to a "mutual understanding" on the BP affair.

However, a government official said there was no possibility of the Inland Revenue ceasing its investigation of whether the tax is payable. "There is no way the Treasury or Foreign Office can intervene in an investigation of this kind," said an official.

The Foreign Office and the Treasury both said they were

not aware that any meetings had been scheduled with Mr Nasser Abdullah Al Rodhan, Kuwait's finance minister, or Mr Ali Ahmad Al Baghli, its oil minister.

It also emerged yesterday that a new general manager is being appointed at the international investment arm of the Kuwaiti government, the Kuwait Investment Office, which bought the BP shares on behalf of the KPC.

He is Mr Yousef Al-Awadi, currently managing director of the Al Baraka Investment Company, the investment arm of the big Saudi conglomerate, Albaraka.

Formerly the chief executive officer of Gulf Bank, the Kuwaiti commercial bank, he takes up his post at the KIO on October 25.

### Review of rules on immigration

A study of ways of improving the efficiency of government agencies in tackling illegal immigration into Britain was announced by Mr Michael Howard, home secretary, yesterday.

It will examine the effectiveness of co-operation arrangements between the Home Office immigration and nationality division and other bodies including the police, the social security and employment departments, the National Health Service and housing authorities.

The review will be part of the government's efficiency scrutiny programme. It is due to be completed by next spring.

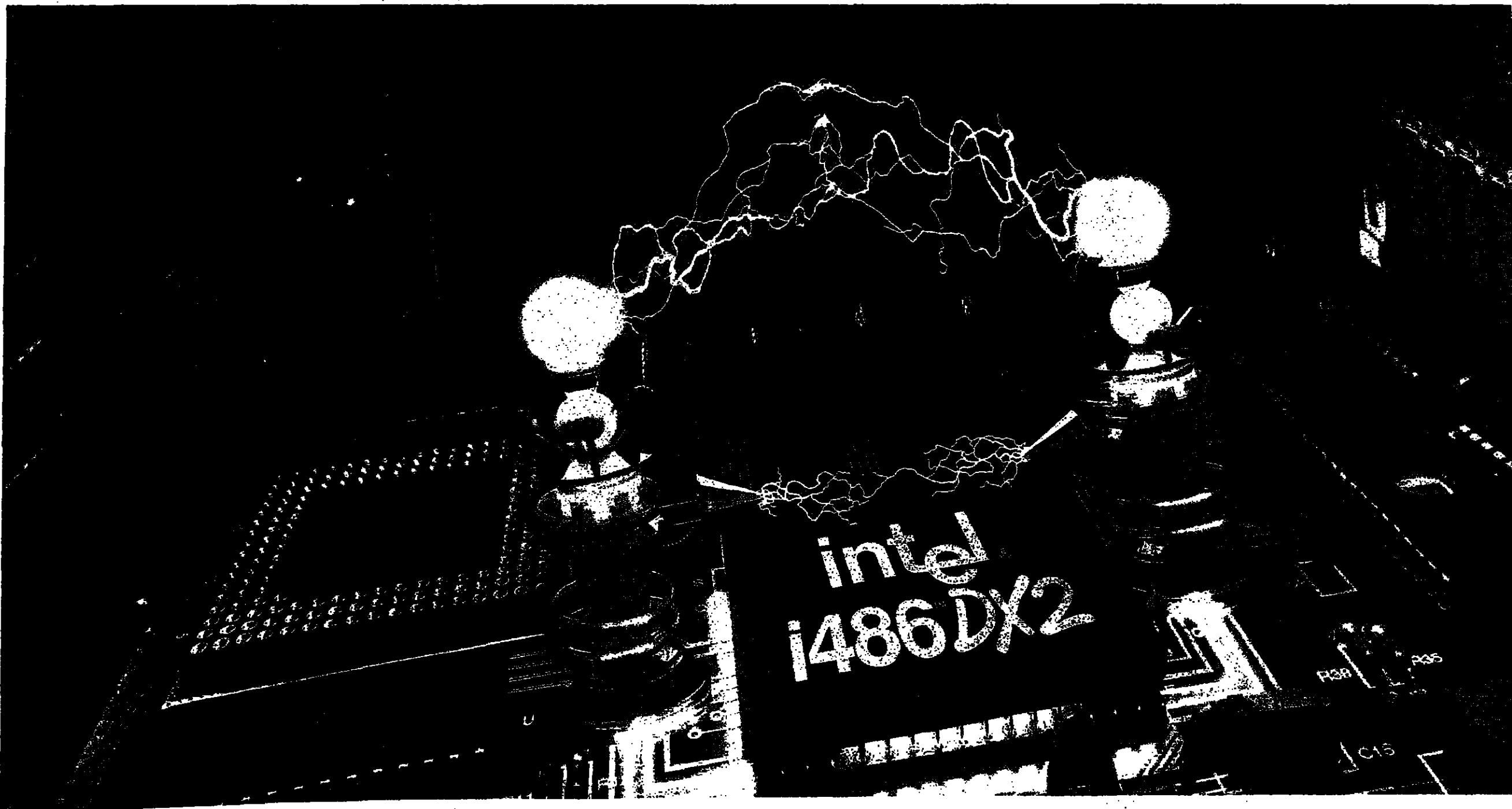
### Moves on PR to be resisted

Any attempt to require all members of the European Community to use some form of proportional representation



Police waded through flooded residential streets in Windsor, near London. The recent widespread flooding in southern England is unlikely to have any serious financial impact on insurance companies or local authorities according to provisional indications.

Sun Alliance, the composite insurer, said: "For the people who are flooded it's terrible, but it's not widespread from an insurer's point of view." Flooding to fields, and localised property damage, do not create serious claims. Royal Insurance and Commercial Union also reported that claims were unlikely to have any significant impact, although marketmakers in the City sold composite insurance stocks all day yesterday. CU said its claims were "in tens rather than hundreds or thousands", while Sun Alliance had only received 17 flood damage claims, and suggested that the share price moves were due to "marketmakers driving through flooded roads this morning".



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## NEWS: UK

Leading financial institutions negotiate for substantial stake in Merrett subsidiary

## US group may buy into Lloyd's agency

By Richard Lapper in London

A GROUP of US financial institutions is negotiating to acquire a substantial stake in a leading Lloyd's underwriting agency, a subsidiary of the Merrett Group, in a significant innovation for the insurance market.

The group said yesterday it had approached Lloyd's with an outline plan to transfer its underwriting business to a new agency, in which J.P. Morgan, the investment bank, and

Marsh & McLennan Risk Capital, a subsidiary of the world's biggest insurance broker, Merrett employees and other investors would own stakes.

The move was designed to secure the future of the troubled agency, chaired by Mr Stephen Merrett, who resigned as deputy chairman of Lloyd's last month. It is also envisaged that the agency will underwrite business for an insurance company, which would operate alongside the syndicates on a so-called "consortium" basis.

Together the insurance company and syndicates would aim to maintain existing business.

The move comes in the wake of a sharp contraction in the capital base of the Merrett syndicates, following the desertion from it this year of many Names, the individuals whose assets support Lloyd's.

Mr Stephen Cane, managing director of the Merrett Group, said that the new investors would "probably" have a majority of the new agency. He insisted the Merrett Group did

not want to leave Lloyd's but conceded "this is a significant departure for a typical Lloyd's underwriting operation".

The insurance company is a "substantial and significant" US player. It could provide about a quarter of the Merrett agencies' capacity next year, Mr Cane said. More than three-quarters of the business underwritten by Merrett syndicates comes from the US.

Lloyd's said there was "nothing in the current regulatory framework which would pro-

hibit a move of this nature, but that is not to say within a specific case we don't have to go through it with a fine tooth comb".

Marsh and Morgan agreed earlier this year to form a new Bermuda-based company to reinsure business accepted by the Merrett syndicates. The sudden decline in the fortunes of Merrett Group had jeopardised the success of that plan. The group hopes to conclude negotiations on the arrangements by the end of the month.

## Radio chief produces pirate decoders

By Richard Donkin and Raymond Snoddy

THE CHAIRMAN of a Birmingham commercial radio station has built up a multi-million pound business making and supplying pirate decoder cards for a wide range of subscription satellite channels in Europe.

Mr Chris Cary, a former pirate radio broadcaster on Radio Caroline, runs an electronics company in Camberley, Surrey, which is offering unauthorised decoders for channels using the EuroCrypt security system. He describes himself as a consultant.

The channels include Scandinavian channels TV 1000 and the three channels of TV3 plus Filmnet, the English-language film subscription broadcast to the Low Countries, and Filmmax, another film subscription channel. Hard core pornography is available at night on some Scandinavian channels.

Supplying decoder cards for TV 1000 and the TV3 channels is almost certainly a criminal offence in the UK. Both are based in the UK and send their signal to the broadcasting satellite from the UK.

Mr Cary said yesterday he was selling Buzz FM, his Birmingham-based radio station, in a £500,000 deal.

## Ulster Unionist leader rules out early Dublin meeting

By Tim Coone in Dublin

MR JAMES Molyneux, leader of the Ulster Unionist party, has ruled out an imminent meeting with Mr Dick Spring, Irish foreign minister, to discuss the Hume-Adams peace initiative, despite strong interest in Dublin for such a meeting.

Mr Molyneux yesterday said: "I already know what's in [the initiative]. It is a grandiose scheme calling for the self-determination of the whole of Ireland and designed to go over the heads and the wishes of the people of Northern Ireland. We don't have to sit on the edges of our chairs to hear the detail."

The UUP is not demanding to be briefed on the initiative and Mr Molyneux has no plans for an imminent meeting with Mr Spring. This contradicted reports in the Irish media that Mr Molyneux was already in Dublin. "I am flattered to discover that I am the first mortal to appear in two places at once. I have been working a long time to achieve that," he said.

The reports appear to be fuelled by a keen interest from the Irish government to talk to the unionist parties.

The Department of Foreign Affairs in Dublin said: "We would very much look forward to a meeting with the unionist leadership if it could be arranged. The invitations are

## Sinn Féin may open Brussels office

Sinn Féin is planning to open an office in Brussels to muster European support for the Republican cause.

It will be the first Sinn Féin office in Europe outside Ireland and Britain, reflecting increasing hopes that the 25-year conflict can be settled with the help of EC pressure.

Sinn Féin chairman Mr Tom Hartley told a news conference in Brussels: "It is very obvious that the Community brings together many politicians from Europe. Sinn Féin would like to tap into that. We would like to see Europe involved in doing something to resolve the Irish problem."

He added: "We are here to encourage European parties and governments to apply to the conflict in Ireland the same degree of interest which they have shown to other conflicts."

"International opinion can do much to help end hostilities and to assist in the development of national reconciliation and economic regeneration."

The Brussels Commission has deliberately avoided involvement in disputes involving member states which are considered no business of the Community.

No date has been fixed for the opening of the office, but Mr Hartley said it was a top priority for the organisation.

on record. It is a matter for Mr Molyneux and others to pick the appropriate time."

Mr Molyneux did not rule out the possibility of a meeting at a later stage.

The Irish government was briefed last week on the Hume-Adams peace initiative by Mr John Hume, leader of the Social Democratic and Labour party. Details are being kept secret for fear that what is now considered a nascent peace process could be halted by publicity before all parties have been given a chance to consider the proposals.

Unionist interest in the initiative was indicated earlier this week by the Rev Martin Smyth, UUP MP for South Belfast, who said that Sinn Féin would be accepted by the UUP at the negotiating table if there was to be a total cessation of violence. What remains to be clarified are the terms on which the IRA would be willing to abandon its 25-year military campaign.

Mr Ken Maginnis, the deputy leader of the UUP said yesterday that a total cessation of violence would require the handing over of all arms caches "by the IRA and other paramilitary groups".

## September new issues by borrowers total £3.1bn

By Andrew Jack

NEW ISSUES by borrowers in the UK for September totalled £3.1bn, according to monthly figures released by the Bank of England yesterday.

UK borrowers' new issues denominated in sterling were £2.8bn, while sterling issues by overseas borrowers were £327m. The figures reflect the substantial reliance being placed on capital markets, and are important in determining the Bank's estimates of the demands on the money supply.

The largest issue last month was the £406m rights issue by brewery group Scottish & Newcastle. Other large rights issues included £338m from Cadbury Schweppes, £307m from Rolls Royce, and £215m from Tarmac.

Lothbury Funding No.1, a vehicle for National Westminster Bank, announced a three-tranche issue of mortgage-backed floating-rate notes for £200m, and the Japan Development Bank launched a fixed-rate sterling bond issue of £200m.

Actual gross issues by UK borrowers during September were £2.4bn, with redemptions of £1.2bn and net issues of £1.3bn. Gross issues in sterling by overseas borrowers were £357m, with net issues of £337m.



Malcolm Rifkind, the defence secretary, on a visit yesterday to helicopter manufacturer Westland in Yeovil, Somerset, has recently clashed with the Treasury over expenditure for his department

## Tory backbenchers set to resist defence budget cuts

By David Owen

Conservative backbenchers will next week attempt to stop further deep cuts in UK defence spending in the drive to meet public spending targets for the next three years.

Several Tory MPs are expected to use a two-day Commons debate on this year's defence white paper to say the armed forces are already stretched.

This will follow the publication on Monday of a report by the Commons defence committee which is expected to be critical of some of the the white paper's plans.

Sir Nicholas Bonsor, Conservative chairman of the committee, said this week he was "extremely alarmed" by reports that more defence cuts might be in the offing.

This new expression of backbench discontent follows

clashes between Mr Malcolm Rifkind, defence secretary, and the Treasury over demands for billions of pounds of additional cuts from the £23.5bn defence budget. Mr Rifkind is demanding a full-scale review of the armed forces if the Treasury refuses to drop its demands.

Even if he beats off all the Treasury's demands, defence spending is set to drop by 1995-96 to its lowest level as a proportion of Britain's gross domestic product for decades.

Though the white paper contained a series of new cuts, some long-awaited measures were put off. These may now be examined by EDX, the cabinet committee charged with sharing out the spending cake.

They include plans for an air-launched nuclear missile and a decision on whether to upgrade existing tanks or buy more Vickers Challenger 2s.

MoD pension payments have been outside the public spending control total from April. This makes the option of encouraging staff to retire early more attractive since the wage bill could be trimmed while the corresponding increase in pension outlays would not be counted.

Defence suppliers may in future contract to provide staff as reservists, under proposals by the Ministry of Defence.

Companies would undertake to provide a service, such as maintaining equipment, for an agreed payment. They would have to ensure that enough of their employees became members of the volunteer reserves, to allow them to be deployed.

Unions are seeking talks with ministers following over the 500 redundancies planned at Devonport naval dockyard in Plymouth, Devon.



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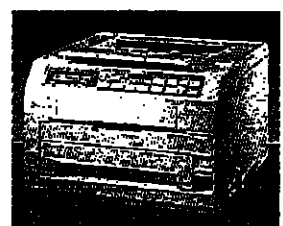
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## Andrew Fisher on the wealth of engineering talent in Moscow Pick of the Russian software crop

Doing business in Russia might not seem the most attractive of propositions just now, let alone employing experts there to develop a core part of your business.

But one US computer company, Pick Systems, has found that the skills of software writers in the former Soviet Union have enabled it to expand its product range more quickly and cheaply than if it had relied solely on the facilities at its Irvine, California, headquarters.

"We couldn't afford to put the same amount of resources in the US for cost reasons," says Denis Hill, a Pick director. The company, which developed computer systems in the 1980s for the US Army in Vietnam, employs nearly 60 software engineers (two-thirds of its total) in Moscow, and plans to double this by spring.

Unlike some other international computer concerns, Pick is not simply using Russian software experts to develop applications for local use. Pick software is widely used in Russia, operating at some 200 sites in Moscow and St Petersburg, one of its chief functions being to keep an eye on tax payments.

The company wanted to do more than this, however. Having begun to employ Russian experts four years ago when they first became available after the Soviet empire collapsed, it then decided to put them to work on developing its basic operating software designed before the emergence of open systems such as Unix - and adding new functions. These are now about to come onto the market.

"We are seeing the first fruits of our labour," says Glyn Yarnall, UK sales director, about Pick's Moscow development centre. It will soon move from its cramped offices in the Olympic stadium.

Pick's Russian employees, whose average age is about 30 - "these are fast track, really bright young guys," says Hill - have developed both a graphical user interface (to simplify on-screen instruction) and a structured query language (enabling easier access to databases) to strengthen the

company's software range. "Without Moscow, this would have cost more and taken longer," adds Yarnall.

Because of their academic background and the fact that, in the communist days, they had to do without western computer equipment and thus work out their own systems and solutions, Pick's Russian employees tend to have a stronger scientific leaning than those in Irvine, reckons Hill. "These people have a really solid education in software engineering."

Although costs are rising rapidly in Russia, they are still significantly lower than in the US, apart from office rents. Hill says the cost of the Moscow operation is around \$25,000 (£16,500) a month; in the US, the figure would be around \$500,000. With the benefit of modern communications techniques, it is easy for Irvine and Moscow to keep in touch electronically. Obviously, the company will not always be able to choose from among the best of Russian engineers, whose skills have also been used by companies such as Apple Computer.

Pick's first crop of recruits included software engineers who had worked on Soviet aeronautical, military and satellite programmes, as well as in computer research. "It is a blunt fact that if we didn't take them on, someone else would have," says Yarnall. "But you can't always get that calibre, so you also have to go for the second division people."

Despite the temptations of life abroad, Pick's Russian employees are generally content to stay where they are.

"They're not always keen to move," notes Hill. "They weren't used to mobility under communism. But they have enormous opportunities in Moscow, while in the US it is tougher to compete."

Having just returned to Irvine from Moscow, Hill says the Pick employees there - for the past six months, including no one from the US - worked right through the latest crisis. "They're living the adventure of what's going on in their country."

IT'S CALLED PAPER, SON, AND THOSE MARKS ON IT ARE WRITING



## Turn on, tune in and print out

An experimental interactive television service is set to alter our viewing habits, writes Louise Kehoe

Television viewers in Orlando, Florida, will be invited to turn on, tune in and print out next year, when Time Warner launches its US interactive cable television service network.

As an adjunct to television shopping, "movies on demand", video games, information services and a host of other programming planned for interactive television, Time Warner will provide 4,000 subscribers involved in its Orlando I-TV trial with specially modified Hewlett-Packard colour printers.

Linked to the TV cable, the printers will enable users to make paper copies of TV screen images - Madonna in a striking pose or a family snapshot from a home video. The core technology for this new service was derived from HP's new line of "Vidjet Pro" printers for video production professionals. Connected to any video source, such as a television or laser-disc player, these printers store and reproduce individual frames, or sequences of frames, on plain paper at a fraction of the cost of current methods. The "home media printing service" will also let cable subscribers print out news and information selected from menus on the TV screen.

The printer will enhance I-TV services such as "TV shopping". Using

a remote control device, the subscriber could select the "Shopping Mall" section of Time Warner's I-TV network. A menu would enable the viewer to select a car based on a choice of priorities such as model, price, features or manufacturer.

Next choice: "info-mercials" about cars that might suit. Still interested? Press a button on the remote control and a colour brochure giving details of the car is printed out. A few more clicks and the subscriber can request a test drive. A local dealer will receive the message - via his printer.

Printers might also help to solve a thorny problem facing developers of I-TV services. Consumer research suggests that when given the ability to choose from a broad range of programming, the majority of viewers will not watch TV advertising.

Of more than 3,000 people interviewed by H&M Consulting, a California market research firm, 73 per cent said they do not want advertising to impinge upon their interactive viewing. However, without advertising revenues, the cost of I-TV would be well above the average \$12 a month consumers expect to pay for interactive services, says Mark Macgillivray of H&M.

By printing out discount coupons or offering further information in the form of brochures, order forms

or price quotations, the "home media printing service" can provide an incentive for viewers to watch advertising. And because viewers will select which commercials to watch, advertising can be tightly targeted to prospective customers.

The Orlando trial will provide valuable consumer feedback on all aspects of interactive television. HP acknowledges that its agreement to link printers to the cable TV service is experimental. One question is whether people will accept a printer in their living rooms. "The printer will have to be very small, and cost no more than \$300-\$400 (£197-£253)," says Jim Olson, general manager of HP's new video communications division.

For HP, the leading manufacturer of non-impact printers, the I-TV trial also represents an opportunity to explore the potential of "home peripherals" - products that blend home entertainment and computer technologies.

Another question will be whether home computer owners need an extra printer tied to their TV sets. It might be more efficient to link the TV cable to an existing PC printer. The next step in the confluence of computer and consumer electronics technology may be the "home network" - linking the PC in the study to the TV in the living room.

## Planning for a speedy recovery

Joia Shillingford on how NatWest got its computers back on their feet

The night before the Bishopsgate bomb in the City of London, Mary Jackson, head of technology at the NatWest Tower, came back from holiday. Next day, Saturday April 24, her mobile telephone rang. The building was in darkness, she was told, and 10 of her staff were inside. "We thought it was just a routine bomb scare and were irritated by the thought of our weekend maintenance work being delayed by two hours," says systems manager Geoff Taylor.

He looked into the computer room. The computers were exposed to the elements and some equipment, including a Wang minicomputer and a mid-range IBM AS/400, had been damaged. But most were still running. Since then, Jackson and her colleagues have been involved in both technology change and disaster recovery.

She first contacted 20 of her staff and asked them to meet her on Sunday. From the building, they removed important files such as a printout with details of all computer equipment allocated to each person in the tower.

Most equipment had survived. But dust and glass had rained on to the computers, getting between cracks and under keyboards. Loss adjusters said they would have to be removed, taken apart, cleaned and re-assembled.

Personal computers and substitute Wang systems had to be borrowed from other parts of NatWest and suppliers. Voice and data lines were installed and re-routed through the bank's alternative City communications centre.

By Monday, all critical staff were provided with a telephone and PC. At first, most only had access to standalone PCs. But Friday night's Wang back-up tapes (moved off-site early on Saturday morning as usual) were installed.

Since then, Jackson's department has worked overtime to organise removal of computers, tapes, telephones and photocopyers from the tower to spare NatWest offices nearby in Drapers Gardens.

Each batch of machines has been transferred to another floor and labelled for despatch to the

site where its former users now work. A final assessment of computer damage has yet to be made. Some of the Wang equipment was damaged, but the bank was already moving to PC-based local area networks (Lans) running the Windows graphical user interface and a mixture of Microsoft and Lotus applications. The bomb accelerated this process.

The tower's computer environment has now been duplicated at Drapers Gardens. But Jackson's team cannot relax. Taylor and other IT staff will work until Christmas to supervise the introduction of new Lans at Drapers Gardens as more users move in.

The introduction of PC-based technology has involved a steep learning curve for Jackson's staff and users. "Because of the bomb we've been forced to make a momentous leap from old systems to new." Users who worked on Wang systems in the tower, and with PCs or standalone Wang terminals at their temporary accommodation, have transferred to Microsoft Windows applications at Drapers Gardens.

No one receives any other training until they have been trained on the Windows interface. "We make it very hard for them to say no to training because we offer it when it's convenient for them: day, night or even Sunday," says Jackson.

Despite the rushed timetable, users' acceptance of change has been remarkable, says Jackson. "They know they have no choice but to adapt because the old system has gone. If we'd wanted to duplicate what they had before, we would have had to cable Drapers Gardens for Wang, then re-cable for LANs."

Meanwhile, a new computer disaster recovery plan is being developed, perhaps using different NatWest data centres as back-up. "We had a disaster recovery plan before but recent experiences have focused our minds on becoming the best in the business," says Jackson. "We now have a hand-picked disaster recovery team made up of people with specialised knowledge who also do other jobs. And we have a detailed, but highly confidential, plan which we are about to test."

## PEOPLE

### Human planning seeks boardroom recognition

The world of human resource management - still known as personnel in some quarters - is often a vital element in corporate life. Slotting round pegs into round holes is never as easy as it sounds; yet the personnel department and its leadership is not the centre of gravity for many companies.

But that is changing, according to Chris Brewster, director of the Cranfield school of management's centre for European human resource management, who has just been created professor in the same faculty.

"What is happening is that human resource management has always been important for companies, but now it is becoming much more visible. As companies have to become more cost effective, they have to learn how to manage their human resources much more cleverly than in the past," says Brewster.

Brewster's research shows half of all companies in Europe now have a human resource director on the board; he believes that percentage will increase in the next few years. It is certainly an area of corporate life where there currently seems to be a flurry of activity in the UK.

Don Young, formerly director of organisation and personnel at Thorn EMI, has joined REDLAND as its director of human resources; David Garth, previously with Sears, has moved to the newly-created post of head of human resources at TARMAC, reporting to group chief operating officer John Lovering; Raymond Babinbridge is taking over as head of personnel of HONEYWELL's European control components division; Andrew Mayo has moved at ICL from being its European personnel director to the company's director of human resource development; and Marc Dufour is moving from the US to become group personnel director for NORTH WEST WATER.

British Telecom's group personnel director, Richard Worsley, is taking a three year secondment from BT to become director of the Carnegie Third Age programme, which, among other things, seeks to promote employment and educational opportunities for people aged 50 and over.

Higginson joins two other business.



non-executives on the board: Bill Forman, who joined on his

### Paul takes over as Norwich Union chairman

George Paul, 53, chief executive of Harrison & Crosfield, the agriculture and foods conglomerate, is to take over as chairman of Norwich Union, the insurance and investment group. He replaces Michael Falcon, now 65, who is retiring at the group's annual general meeting next April, after 30 years as a director of the group.

Mr Paul, who has been a director of Norwich Union since April 1990 and vice-chairman since May 1992, has taken a keen interest in risk and insurance management, arguing that both insurance buyers and insurers themselves can much to reduce losses - and insurance claims - by implementing effective risk management schemes.

At Harrison & Crosfield claims from fires, thefts and accidents have fallen sharply and insurance costs reduced by between 30 and 50 per cent, since the group appointed a full-time risk manager and introduced safety features such as sprinkler systems to its factories, warehouses and offices. Mr Paul also plays an active role in crime prevention work



in his native Suffolk and is an advocate of greater insurance industry involvement in the area.

### Badgerline group bags new recruit

The Badgerline group, comprising bus and coach operations in the south of England, Wales and west Midlands, has appointed Andy Higginson, right, as a non-executive board member. Higginson has been finance director of Laura Ashley Holdings since 1990 and was previously finance director of Guinness Brewing International.

Badgerline is busy preparing for its float on the London Stock Exchange, planned for November.

Its executive chairman, Trevor Smallwood, says that Higginson's experience of public companies was a key factor in making his appointment. Smallwood, who says that he has "been in buses for 27 years", felt that the five executives already had sufficient knowledge of the transport

retirement from Vickers in 1991, and Philip Williams, who is with Hiltl Samuel in Birmingham.

Badgerline started life in September 1986, being one of numerous splinters from the old state-run National Bus company, privatised as a result of the 1986 Transport Act.

Other non-executive appointments:

■ Sir Michael Bishop, who has been chairman of Airlines of Britain Holdings, owners of British Midland, since 1978, has joined the board of Williams Holdings as a non-executive director.

Brian McGowan, currently chief executive, has announced that he is retiring with effect from January 1 1994; Roger Carr, currently managing

director, will take over as chief executive.

■ Tony Ryan has resigned from TRAFALGAR HOUSE.

■ Ian Campbell, already a director of HUNTINGDON INTERNATIONAL HOLDINGS, as chairman; Bennie Wooley, who previously held both posts, remains chief executive.

■ John Jackson, chairman of Mishcon de Roys and chairman-elect of Ladbroke, at WPP.

■ John Hignett as deputy chairman of TI GROUP.

■ John Gardner, chairman of the Laird Group, a director of PowerGen and chairman of the School Teachers' Pay Review Body, at St.

■ John McKirdy, a retired and at Noble Lowndes and deputy chairman of the BURA, at the FAME GROUP.

■ Geoffrey Birch has retired from FROGMORE ESTATES.

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## MANAGEMENT: MARKETING AND ADVERTISING

Nothing demonstrates the value of brands more clearly than the frequency with which they are copied and counterfeited around the world by fly-by-night operators in search of a quick profit.

International Distillers and Vintners (IDV), the drinks subsidiary of Grand Metropolitan, has taken action against about 50 brand pirates in its international markets during the past year. There are eight lawsuits under way involving infringements of its Smirnoff vodka brand alone.

Guinness's United Distillers, in relentless pursuit of counterfeiters of its Johnnie Walker Scotch whisky, has also stamped on the creators of such copy-cat brands as Johnnie Hawker, Joe Worker and Johnny Black.

Hiram Walker, the Allied-Lyons drinks company, has quashed attempts to cash in on the reputation of its Ballantine's Scotch whisky in export markets by brands called Ballentye's and Ballantia. Two court cases are pending involving its brands in the UK. "A brand is costly to create and establish, but can be very easy and profitable to copy," says Michael Leathes, legal director of IDV.

"Brands are our most important assets. Through them we communicate the quality of our products to consumers. They represent a huge investment of time, effort and money, that can be diluted, weakened, even destroyed by those who copy them.



Spot the rip-off: International Distillers and Vintners has taken action against about 50 brand pirates during the past year. But fakes continue to appear in markets from southern Europe to the Pacific Rim and Latin America

## Pirates who walk the plank

Philip Rawstorne reports on the relentless pursuit by companies of brand counterfeiters

"Counterfeits or imitations can be sold cheaper. Their producers do not have to spend on advertising and marketing. Nor do they have to bother about the quality of the drink or the packaging. We have to be rigorous in the protection of our brands against the damage that copies can do to them."

Brand counterfeiting - the creation of facsimiles - is a criminal offence in most countries in which the drinks groups operate, and once the counterfeiters are identified is relatively easy to stop.

At the other extreme, agreed settlements can usually be

quickly reached on unintentional infringements. Inver House, an independent Scotch whisky distiller, recently changed the name of its Knockduff malt whisky brand to Onoc to avoid an identity clash with IDV's Knockando.

The main problems arise from imitations which deliberately seek to deceive consumers by suggesting an affinity with a leading brand: using a similar name, or similar designs and colours in their bottles and labels.

Smirnoff's imitators, with names such as Smirnovskaya, Romanoff and Selikoff, have

appeared in look-alike bottles, with labels featuring the crown, shields and other designs associated with the original.

The success of another IDV brand, Bailey's Irish Cream liqueur, has encouraged the illegal production of a host of copies, including Baileys, Teleys and Raylas, all in squat brown bottles with pastoral scenes incorporated into the labels.

Rip-off artists have translated Ouzo 12 into Ouzo 21, J&B Scotch into M&B, and Malibu coconut liqueur into Marabou. United Distillers discovered that its Gordon's gin

suddenly had a new competitor labelled Garden's gin, and that in some markets its White Horse whisky brand was facing creations called Black Horse and White Housie.

Tia Maria, Hiram Walker's coffee liqueur, has been a popular target for imitations. The fakes, disguised by almost identical packaging, have included Zia Maria, Tia Lia and Bella Maria.

As a Canadian court recently affirmed, the "trade dress" of a product is entitled to legal protection. Competitors cannot trade on the distinctive identity of a rival brand.

All the leading drinks companies have specialist departments to counter such exploitation. Leathes sums up the general policy for dealing with offenders. "We stand on them as hard as we can. Our aim is to hurt those responsible as much as possible. Tough action deters others."

Trademark infringements are civil offences. "We sue first and talk later," he says. "We demand damages to cover loss of profit and reputation."

In Spain last year, a court awarded multi-million dollar damages against the producer of a Bailey's look-alike product.

Earlier this year, a Netherlands company was ordered by a St Petersburg court to destroy 100,000 bottles of its Smirnovskaya vodka and pay substantial costs and damages.

An Italian producer of "Cilbert's gin" was forced to change the name and the design of its labels which bore a resemblance to those of Gilbey's gin. Apart from paying costs, it has to obtain IDV's approval for its future labels.

It sometimes proves difficult to gather enough evidence to take offenders to court. Rogue drinks producers rarely keep records and often move their

activities from one shell company to another.

Solving such problems requires a more unconventional approach. Corporate investigation agencies, such as London-based Carratu International, are called in to uncover the people behind the scam.

"Their inquiries often enable us to bring pressure to bear on the offenders in other ways," says Leathes. "They may uncover other offences that interest the police or tax authorities, find evidence that enables us to sue personally the directors of a rogue company, perhaps to sequester their homes or other property."

Steve Smith, Carratu's managing director, says that protection of brands now accounts for a large part of the agency's work. "Drinks brands are a popular target now in the Commonwealth of Independent States and other eastern European countries," he says. "Imitation products, usually two or three container loads at a time, are being shipped there from the Netherlands and Germany in particular."

But fake products continue to appear in many markets from southern Europe to the Pacific Rim and Latin America. Inadequate legal frameworks in several countries add to the difficulties of enforcing the protection of trademarks.

Leathes would like to see the European Community reinforce brand owners' security as the US has done - by making trademark protection an essential part of its trade agreements with other countries.

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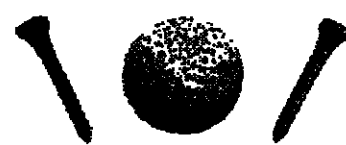
And while Jesper and Greg were taking the Opens to the cleaners, Hugh and Alistair were taking around 300 cleaners to the Opens. They also took 400 plastic wheelie bins, several trucks,

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## Fighting fire with fire

US tobacco groups are under attack, says Victoria Griffith

Faced with vocal anti-smoking lobbies and a revenue-hungry administration, the US tobacco industry has long had reason to hone its marketing skills. Arguably they are needed now as never before.

The latest threat to the sector is the proposal for a federal tax of up to \$1 (65p) a pack, a central part of the Clinton health plan.

On top of this, one of the sector's most compelling advertising figures - R. J. Reynolds' Joe Camel - stands accused by the Coalition on Smoking or Health of enticing young people to smoke. The Federal Trade Commission is reviewing a request to ban him.

All this comes on top of "Marlboro Friday", the day in April when Philip Morris took the battle to its competitors by cutting the price of its Marlboro brand by 40 cents.

The biggest change for manufacturers has been the switch to "generic" cigarettes, which hold no brand value and sell cheaply. To the dismay of the cigarette companies, generic cigarettes now hold about 38 per cent of the market.

With margins and brand share under attack cigarette manufacturers are relying increasingly on techniques such as direct mail to reach their potential clients. The leading US cigarette companies have compiled large databases on smokers, and target potential customers by sending free packs through the post. Another development has been the increased use of cigarette catalogue "clubs".

Every pack of Marlboro purchased, for instance, contains a redeemable "green stamp". By accumulating sufficient stamps, customers can purchase anything from binoculars to lighters.

"First, smokers are induced to smoke more of that particular brand. Second, once they have the products, such as a tee shirt with Marlboro written on it, they become walking advertisements for the company," says Edward Mally, a tobacco analyst at Salomon Brothers in New York.

Another effective promotional technique has been R. J. Reynolds' introduction of a "flavour seal" in its Winston packs. Made of polyester film, the seals have boosted market share of the brand by capitalising on the cigarettes' freshness.

Advertising - which has seen its share of total advertising/promotion expenditure fall from about a third five years ago to 20 per cent today - has not completely lost its effectiveness. The Marlboro man is one of the most widely recognised advertising symbols. Two years ago researchers at the Medical College of Georgia found that children between the ages of three and five were as familiar with Joe Camel, the cartoon figure representing Camel cigarettes, as they were with Mickey Mouse.

Cigarette companies still evade bans on television and radio advertising, by sponsoring sports events and purchasing billboard space at televised events.

The anti-smoking forces, though, are now producing sophisticated television commercials themselves. Growing numbers of advertising vehicles are refusing to promote cigarettes. Houston and New York, for instance, have banned them from public transport. The anti-smoking lobby is also gaining success in curbing cigarette marketing aimed at women and minorities.

## On the road costs driven higher

Keeping a UK sales representative on the road costs an average of £731 a week, excluding management and office overheads, according to survey figures published today by the Reward pay research group and the Chartered Institute of Marketing.

The figure is an increase of 4.3 per cent on a year ago - in line with the average pay rise of 4 per cent for all sales and marketing staff over the past 12 months, says the report.

Increases of 2.5 per cent for all staff are being forecast for the coming year by participants in the survey.

A typical sales rep receives a salary of £14,378 a year, plus a bonus payment of £2,000 or commission payment of £4,500. It costs £9,612 to keep the rep's car on the road, a further £2,212 for meals and accommodation and £941 for a home telephone and other

miscellaneous costs. Car telephones are expensive to run, according to the survey: 28 per cent of reps now have them, but they add nearly £2,000 a year to running costs.

The median total remuneration for a marketing manager, meanwhile, is £35,350: the figure for a senior product manager is £29,000, according to data drawn from CIM's 24,000 members.

Over the last four years Vauxhall is reported as having overtaken Ford in selling company cars to sales and marketing managers.

The most popular engine size in company cars remains 1800cc-2000cc.

**Diane Summers**  
\*Sales and marketing rewards 1993-94. Price to CIM members £180, others £220.

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INTERNATIONAL  
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GUIDE

ATHENS

Megaron Concert Hall Tomorrow:  
Ivan Fischer conducts Michael  
Hampe's staging of *Idomeneo*, with  
Keith Lewis, Hans Peter Blochwitz  
and Cynthia Lawrence. Sat, Sun:  
Fischer conducts Budapest Festival  
Orchestra in works by Bach family  
and Mozart. Saturday, Sun, Mon:  
Limon Dance Company. Next  
Wednesday: Hungarian Gypsy  
Concert Orchestra (01-728 2333/  
01-722 5511)

VENICE

The next opera production at the  
Fenice is *Der Rosenkavalier*, opening  
on Oct 31, cast led by Felicity Lott,  
Anne Sophie von Otter, Armin  
Korn and Barbara Bonney (041-521 0161)

BARCELONA

Gran Teatre del Liceu Tomorrow:  
Suri: Uwe Mund conducts Willy  
Decker's 1991 Cologne production  
of *Der fliegende Holländer*, with

Cinema/Nigel Andrews

# Struggles for liberty

What does it mean when a director gets an attack of Serial Cinema? Is it bad for him? Should we try to help? It happened with Eric Rohmer, whose "Moral Tales" were followed by "Tales And Proverbs" and "Tales Of The Seasons" and whose movies seem more and more like rent-a-theme fables with dwindling variations. Now Poland's Krzysztof Kieslowski, having made ten films under the sign of the Decalogue, promises three movies with colours as titles beginning with - that hue again - *Blue*.

Since each film in the French-made trilogy will also deal with a different *tricolore* inspired theme - in *Blue* it is "Liberty" - we feel attacked by tags and flags, labels and gift-wrapping even before the credits start.

But after the annoyance, the masterpiece. After the signposting, a film about living without signposts. A car crash: a husband and daughter killed; and a survivor wife (Juliette Binoche) who wakes in hospital to a world bearing down on her with bright lights and antiseptic concern. Soon she is taking the approved path to rehabilitation. She exorcises her grief - or tries to - by watching a video of her loved ones' funeral. She swaps her manorial country pile for a town flat. (Her husband was a famous composer.) And she takes with her an iconic memento of her past life - a blue-crystal chandelier - like an inoculation to cure her of the disease of memory.

But care-counselling is not the film's business. The man who made *A Short Film About Killing* and *The Double Life Of Veronique* is not European cinema's answer to Claire Rayner. Kieslowski soon hits Mike Binoche with bereavement's aftershocks. A litter of baby rats appears in her box-room - in mocking parody of a vanished family life. And her dead husband rattles his chains from the grave: first when she discovers a lost music manuscript whose notes pursue her on the soundtrack even after she has thrown it in a dust-van, later when she discovers her husband's bygone mistress.

Kieslowski's genius and he may be the only European director now earning that

- word - is for shuffling his deck of images so that animate and inanimate become indistinguishable. Vivified by subtle colour filters or skewed camera angles, trivial objects assume an eerie life: like the blue lollipop, once her daughter's, that Binoche sucks on like a memory-test. Meanwhile human faces turn into mystery objects. Not least Binoche's own luminous, frozen features, crossed by tiny shadows of emotion like a snowbound mountain-face patrolled by changing clouds.
- If *Blue* is about liberty, it is about the struggles we go through to achieve that liberty. Liberty from memory, from grief. Liberty from the panaceas of the well-meaning. Above all, liberty from the
- |                         |
|-------------------------|
| THREE COLOURS BLUE (18) |
| Krzysztof Kieslowski    |
| TRUE ROMANCE (18)       |
| Tony Scott              |
| RISING SUN (18)         |
| Philip Kaufman          |
| THE SECRET GARDEN (U)   |
| Agnieszka Holland       |
| THIS BOY'S LIFE (15)    |
| Michael Caton-Jones     |

false comfort of lives we try too neatly to compartmentalise, only to find that warmth, want and chaos keep flooding in at the edges.

And in a good movie week, chaos will come again. *True Romance* is not so much a film, more an advanced case of *delirium tremens*. But see if you can resist its pop-art vitality. The paths of blonde call-girl Patricia Arquette and lonely comics-store assistant Christian Slater cross in Detroit one night when she spills her popcorn over him in a cinema. He says to her "Accidents will happen." She says to him "What a wonderful philosophy." Consequence: they are soon fleeing to Los Angeles with a suitcaseful of stolen cocaine.

I have left out four murders and sundry plot twists. But you get the point. The movie, directed by Tony (Last Boy Scout) Scott and written by Quentin (Reservoir Dogs) Tarantino, is the dramatic equivalent of having half-a-dozen buckets of popcorn spilled over you. Everything you can think of happens: love, death, violence, substance-abuse, dreams of escape, ghosts of Elvis Presley. More to the point, they all keep happening simultaneously.

Fantasy crashes into reality. Sex gets enmeshed in plot development. (Marvel at the gymnastic love bout that takes place in a roadside phone booth while we are still trying to untangle the significance of the recent phone call.) And comedy is mixed with brutality. This last cocktail comes in the film's most brilliantly unnerving scene. Mafia smoothie Christopher Walken is elegantly, surgically insulted by interrogation victim Dennis Hopper (Slater's father) before Walken finally walks into the camera lens (Hopper's P-O-V) to blow his head off.

As a writer/director duo Scott and Tarantino are pulp cinema's answer to Losey and Pinter. Tarantino provides the gonimic dialogue, Scott the ornate visuals. Gasp at the gilded, smoke-textured interiors and the light-sculpted close-ups; or at the gorgeously overblown "balcony scene" on a poster-dominated fire-escape outside Slater's flat, where the couple sit swirled about by street steam and by their own reveries of escape.

Do not be deterred by the violence. There was worse in Webster and Ford, and Tarantino is nothing if not a New Jacobean. Do not be deterred either by the fact that *True Romance* was a box-office flop in the US. Originality is not always a crowd-pleaser; nor is a movie style that gobbles up different moods like a child let loose on a chocolate box.

Much of *Rising Sun* is shot at night in the pouring rain. This must be an irony: a comment on modern America's view of modern Japan as not so much a sunrise neighbour, more a nation determined to rain on the US's parade. As we know, Tokyo has already annexed much of Tinseltown. In this screen version of the yel-



Juliette Binoche and Benoit Regent in Krzysztof Kieslowski's 'Three Colours Blue'

low-peril bestseller by Michael (Jurassic Park) Crichton, Japan is about to close its jaws around a giant US computer company - with what consequences for national security! - when Sean Connery and Wesley Snipes arrive on the scene. Sean is an Armani-dressed East-West liaison veteran. Wesley is a short-fused black cop learning Japanese on his car cassette-player.

They arrive to solve a murder: the late-night strangling of a call-girl on the Nakamoto boardroom table. They stay to unravel one of Those Plots, in which conspiracy spreads all the way from L.A. to Washington.

Director Philip Kaufman has spent his career trying on different genre hats from sci-fi (*The Invasion Of The Body Snatchers*) to high-tone erotica (*Henry And June*). But the thriller hat falls to suit him. It slides off the back of his head, revealing a cranium empty of ideas on how to make

stage-Japanese supporting characters live: how to stop his three screenwriters attaching messages to their dialogue ("We're giving the country away"); or how to fool us into believing that Connery and Snipes are more than another tired variant on the rookie/oldtimer partnership of a million cop films.

But we still prefer it to *The Secret Garden*. Here the body of a famous children's classic is found dead on a boardroom table: that of Warner Brothers. Means: genteel strangulation. The culprit is director and former Wajda scenarist Agnieszka Holland (of *Man Of Iron*). Determined to avoid Frances Hodgson Burnett's Victorian sentimentality, she manages to avoid every other tolerable emotion too. There is gum photography, a gum heroine (Kate Maberly) and a gum garden, in which rabbits ruminate and ruins glower. Stars, though, will happily be stars. As the snooty Yorkshire housekeeper Maggie

Smith is Maggie Smith, for which relief some thanks.

Robert De Niro in *This Boy's Life* is Robert De Niro. We enjoy - for a while - the Seattle accent and the overdressed-masher routine, as he courts single mother Ellen Barkin prior to making life hell for her and her son Tobias. Scene: a remote company town in Washington State. Time: 1950s.

The real Tobias (Wolf) wrote the memoir about life with bullying Steplad from which British director Michael Caton-Jones of *Memphis Belle* draws this film. Well, not draws: rather pulls it protestingly forth like a thread from an overlarge sweater. The plot seems too slight, the characters at once overwrought and under-occupied: familiar signs that the original book was richer in emotional texture than movie-friendly drama and has caused collapsed inspiration at the studio story conference.

Concert/David Murray

## Berlioz resuscitated

Studying in Paris, Berlioz abandoned medicine for music when he was 19. A year later he composed a *Messe solennelle*, a full-dress Mass with orchestra, which got just two performances. He became dissatisfied with it, and said that he had burned the score - though he cannibalised some of the music for use in later pieces. Until last year, that was all anyone knew about it; but now we know otherwise. In Westminster Cathedral on Tuesday (and on BBC-2), the *Messe* was heard again in a revelatory performance.

Last year Frans Moors, a Belgian part-time organist, discovered a full score - in Berlioz's own hand - tucked away in a chest, in the organ-gallery of his Antwerp church: utterly unexpected. It seems that the young composer had made a present of this manuscript to a fellow music-student, a violinist from Antwerp. The musical world was alerted at once, and the honour of performing the *Messe* went to John Eliot Gardiner with his period-band *Voces* and his *Répons* choir, who brought it to London after touring Bremen, Vienna, Rome and Madrid.

Sometimes "long-lost" scores do turn up: early Handel and Verdi, for example, and bits of youthful Wagner, Debussy and Ravel. This Berlioz rediscovery far outweighed any of those finds, for it is not just a juvenile fragment, or an uncut version of something we knew only

in a truncated form. On the contrary: it is music strong enough in its own right that we would be excited by it now even if Berlioz had died without writing another note - and it is a treasure-trove of musical ideas that he recycled and extended in the now-familiar works of his maturity.

In our century, the only comparable discovery that comes to mind is fairly remote: the resuscitation of Beethoven's original *Leonore* opera (never actually "lost") for modern audiences who knew only the *Fidelio* that it eventually became. But the raising of *Leonore* to a higher power was just a specially rich example of Beethoven's thirst for expressive pithiness and concision, like the development of the late quartet-music that can be read in his sketchbooks; the Berlioz case is different.

The young Frenchman had always yearned to create grand, astounding works. His precocious *Messe* was planned on a towering scale, astonishingly original - and remarkably successful, if uneven. Nothing much like Beethovenian "symphonic argument" figures in it (nor is there much in later Berlioz); rather, each of the 14 sections of his *Messe* would be vitalised by some terrific, unheard-of musical idea, or several of them. And so they were; with a little hindsight, it is easy to hear why the first Paris audiences should have been astounded.

The best ideas would be retrieved in his *Benedictus* *Cellini* opera

(passim), in the *Symphonie fantastique* (the plaintive strings of the "Scene aux champs" come straight from the *Gratias* here), in the great *Te Deum* and the apocalyptic *Requiem*. Even the huge "Dies Irae" fanfares of the latter stemmed from the *Messe solennelle* - without the superhuman brass, but so vivid here with the brass guards and snarls of Gardiner's "period" opticleide, buccin and serpent as to make an equally hair-raising effect.

Everything in this performance was fresh-earred in the best Berliozian spirit, superbly prepared, searchingly musical. Perhaps the vague cathedral acoustic was unfair to the cultivated solo bass Gilles Cachemalle, who sounded soft-grained in his fiercer declamations; but the high-register soloists Donna Brown and Jean-Luc Viala made their confident marks, and the Monteverdi Choir were marvellous in every detail.

Those of us who heard it all on the spot prided ourselves about what mere BBC-2 couch-potatoes were missing: the bomb-scare in Victoria Street, the consequent detours, confusions and delays, the drenching rain. On any other occasion, Gardiner's account of Verdi's four *Pezzi Sacri* in the first half - piercing, uncannily well-tuned, and dramatised phrase-by-phrase to a rare Expressionist standard - would have earned several paragraphs of awe-stricken praise.

SM at the Nottingham Playhouse

is dance theatre about men having sex in public lavatories. It takes its title from the psychologists' term for men who have sex with men, and its material from 50 interviews collected by the Physical Theatre Company, DV8. It represents a joint production between the Nottingham Playhouse and the Royal Court Theatre. At 95 minutes, the piece outstays its welcome, all gurgling cisterns and chance sexual encounters.

The action pieces together observations, confessions, stories and anecdotes from the world of "cottaging" where men meet sexual partners in public lavatories. The dank brickwork and acrid disinfectant bring promise of momentary satisfaction. The show starts with a man loitering outside, while above and behind him, naked men appear in slow erotic entwinnements. The stage opens into the lavatory set.

Theatre/Andrew St George

## 'MSM' by DV8

The design (Michael Howells) manages to make the cubicles and dripping taps more than stage machinery. It allows the seven actors to emerge over or through tiled walls, to hang upside down or stretch languorously against the cool black partitions. The staging stays unpredictable; panels open for a leg, hand or head to pop through into the action. The porcelain hardware moves around, enabling the players to station themselves ready for the baffling and subtle courtship manoeuvres.

The stories engage to a degree; but because they relate the interviewees directly, they are short on the psychology of motivation: "I'm so desperate," says one 35 year old,

"I run to get there quicker; I'm disgusted with myself; I have sex with complete strangers." The play never asks why. Another nameless character says: "Cottaging is ninety per cent waiting; if you have patience, you can have a lot of fun; it was an escape from a two-dimensional existence... it was exciting." In which case, some existence, some excitement. Another says: "my best experience was in a cubicle in Torrington", seeming sad rather than funny.

*MSM* is appropriately choreographed, with sensual slow figures and hanging movements which stretch the male torso the way Renaissance painters did to women. The physical action remains tense,

controlled and pent up. The director Lloyd Newson concludes with a requiem sequence suspended high over the stage.

But the play never makes clear whether these men are to be praised for their courageous honesty, or pitied for their addictive weakness. It lacks political edge, never outlining the laws against sex in public places, and only briefly touching on the health issues involved in massive promiscuity. *MSM* also needs the psychological edge it claims in the programme notes, preferring to shock with *How?* rather than ask with *Why?*

*MSM* tours through December 4 to Edinburgh (Traverse Theatre, 031 228 7404), Glasgow (Tron Theatre, 041 552 4367), Bristol (Wickham Theatre, 0273 303216), London (Royal Court Theatre, 071 730 1745), Zurich (Theaterhaus Gessnerallee, 212 1230) and Munich (Marshall Theater, 49 892 1851)

To open this year's celebration of the newest choreographic ideas, Dance Umbrella offered us the

Batsheva Company from Israel. The Umbrella has sheltered some pretty odd enterprises in the past, but Batsheva is, even in these circumstances, like the ace of trumps.

The troupe is directed by Ohad Naharin, who is choreographer of the 75 minutes of *Mabul* (no indication as to meaning) which was on view Tuesday night at the Queen Elizabeth Hall. The ingredients are the seven men, seven women of the company in less than fastidious outfits of slate grey vests and shorts; some singing (Naharin as a none too convincing counter-tenor; the rest of the cast

Dance Umbrella/Clement Crisp

## Batsheva's 'Mabul'

meilifluous); chatter, and fish-wife yapping from the girls; a scream of horror - at least one of the dancers is also a critic; a collection of Euro-dance incidents of little interest; musical snippets ranging from Vivaldi, whom Naharin treats in cavalier fashion, to pop-racket; a bleak stage; a hamster. (This last creeps over the head and torso of a man while he gently writhes - as if dancing were not difficult enough on its own.)

The effect, as you may gather, is prodigiously tiresome. The Batsheva troupe has gone through various mutations since it came

into being 30 years ago as a Martha Graham offspring. In its latest incarnation, Naharin's *Mabul* gives it a neurotic, aggressive manner. Activity is, at best, inexplicable; at worst, there is a good deal of this, it aims for brutish effect. The grumpier clichés of today's European dance are put through their paces yet again. Bodies slam to the floor; routines of post-modern aridity show the cast as a dull ensemble; movement is dead-pan. Amid the gloomy shadowed lighting - a William Forsythe speciality for the Frankfurt Ballet - the action has

the ill-suppressed ferocity and all-too-evident frustrations that I associate with long waits at Moscow Airport during the bad old days.

Were one, at the end of 75 minutes, to feel that some image, some personality, had made a positive (let alone pleasing) effect, then the piece might be justified. I found it leaden with its own self-importance, unresponsive. Nor does it flatter its performers, whose style appears without finesse or brilliance, though there is a virtuosic outburst of body-slapping. In a programme note, Naharin says he feels blessed because he was born "as a Bedouin woman who has had her clitoris removed". I do not think this is any excuse for making *Mabul*.

Franz Grundheber and Lisbeth Batslev. Oct 27: first night of Giordano's *Fedora*, starring Mirella Freni (tel 412 3532 fax 412 1198) Patau de la Musica Next Thurs: Kiri to Kanawa. Next Saturday: Pinchas Zukerman. Nov 1: Myung-whun Chung conducts Orchestra of La Scala Milan (301 6943)

BOLOGNA

Teatro Comunale Tomorrow and Sat: Claus Peter Flor conducts orchestral works by Beethoven. Next week's concerts are conducted by Christian Thielemann. The opera season opens on Nov 27 with Puccini's *Tristano e Isolotta*. Ente Autonomo Teatro Comunale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999

FLORENCE

MaggioDanza presents a programme of Tchaikovsky ballets tonight, tomorrow, Sat and Sun at Teatro Verdi (055-212320). Oct 22, 23, 24 at Teatro Comunale: Georges Prêtre conducts orchestral works by Weber and Mahler (055-277 9236)

LONDON

THEATRE

● Tamburlaine the Great: Antony Sher plays Tamburlaine, the shepherd whose remorseless ambition takes him to the height

of power. Mariow's masterpiece of lyrical storytelling travels to London in Terry Hands' RSC production, after a sell-out season in Stratford. Opens tonight (Barbican 071-638 6891)

● Macbeth: Fiona Shaw stars in Sophie Treadwell's 1928 classic of the American avant-garde, about a woman who tries to break free from the pressures of a mechanistic world. Directed by Stephen Daldry in the Lyttelton. Opens tomorrow (National 071-928 2252)

● David Hare Trilogy: a three-part examination of major British institutions, presented in the Olivier Theatre by a single company of actors directed by Richard Eyre. The Absence of War, Mummuring Judges and Racing Demon can be seen individually - or all on the same day on Oct 23, 30, Nov 13 and 20 (National 071-928 2252)

● Flight: Bulgakov's drama of the Russian civil war, described through the eyes of a survivor in a style both hallucinatory and blackly humorous. Translated by Michael Glenny, directed by David Graham-Young. Just opened (Lyric Hammersmith Studio 081-741-2311)

● Cleopatra: David Suchet and Lia Williams in Harold Pinter's Royal Court production of David Mamet's controversial play (Duke of York's 071-936 5122)

● Moonlight: Harold Pinter's first full-length play for 15 years, starring Ian Holm, Anna Massey and Douglas Hodge. Till Oct 30 (Almeida 071-356 4404)

● Medea: Dianna Rigg repeats her acclaimed performance in the Euripides tragedy, in a West End revival of the Almeida production (Wynham's 071-344 4444)

● For ticket information about West End shows, phone Theatreline from anywhere in UK: Plays 0836 430995 Musicals 0836 430990 Comedies 0836 430961 Thrillers 0836 430962

OPERA/DANCE

Covent Garden The Royal Opera's repertory consists of a new production of Meistersinger conducted by Bernard Haitink and staged by Graham Vick, with a cast led by John Tomlinson, Thomas Allen, Gösta Winbergh, Deon van der Walt, Nancy Gustafson and Anne Howells; and revivals of Mozart's *Mitridate* (with Jochen Kowalski, Luba Orgonesova and Ann Murray) and Yevgeny Onegin (with Dmitri Hvorostovsky and Catherine Malfitano). The Royal Ballet premieres new ballets by Matthew Hart and William Tuckett on Oct 23, and Kenneth MacMillan's *Romeo and Juliet* is revived on Oct 29 (071-240 1058)

Coliseum English National Opera's repertory consists of Graham Vick's production of *The Rape of Lucretia* with Jean Rigby, a new production of La bohème conducted by Noel Davies and staged by Steven Pimlott and Jonathan Miller's *Il barbiere di Siviglia*, with Alan Ope as Figaro. La nozze di Figaro is revived on Oct 28 (071-936 3161)

Queen Elizabeth Hall Tomorrow, Sat, Sun: Siobhan Davies Dance Company (071-928 8800)

CONCERTS

South Bank Centre Tonight: Leonard Slatkin conducts Philharmonia Orchestra in European premiere of Nicholas Maw's new Violin Concerto (Joshua Bell), plus

works by Haydn and Stravinsky. Sat: Franz Welser-Möet conducts LSO in concert performance of Tristan and Isolde, with Heinz Kruse and Elizabeth Connell. Sun: Marek Janowski conducts RPO in Schubert, Mozart and Bruckner, with piano soloist Alexei Lubimov.

Tues: Jiri Belohlavek conducts LPO in works by Petr Eben, Dvorak and Martinu, with violin soloist Christian Tetzlaff. Wed: David Willcocks conducts Philharmonia Orchestra and Bach Choir in Delius, Vaughan Williams and Walton. Wed (QEH): Eva Randova and Nash Ensemble in songs and chamber music by Czech composers. Oct 21, 27, Nov 4: Alfred Brendel (071-928 8800) Barbican Tonight: Daniele Gatti conducts LSO in works by Beethoven and Mahler. Tomorrow and Mon: David Atherton conducts London Sinfonietta in two programmes, including new works by Gorecki and Theo Verbey. Sat: Goldsmiths Choral Union in Haydn's *The Creation*. Sun: Michael Tilson Thomas conducts LSO in Debussy, Sibelius and Bartok, with violin soloist Anne Sophie Mutter. Next Wed: Stephen Kovacevich piano recital (071-838 8891)

MADRID

Auditorio Nacional de Musica Tonight: Grupo de Musica Alfonso El Sabio presents a programme of Gregorian chant. Tomorrow, Sat: Sergiu Celibidache conducts Munich Philharmonia Orchestra (repeated in Seville next Mon and Tues and in Valencia on Oct 22 and 23). Tues: Spanish Chamber Orchestra plays baroque concertos (01-357 0100)

Teatro Lirico La Zuzuela Mon: Juan de Udaeta conducts Jonathan Miller's ENO production of *Rigoletto*. Oct 27: Martha Graham Dance Company opens a two-month dance season (01-428 8225)

PRAGUE

● Alexander Rahbari conducts Czech Philharmonia Orchestra tonight and tomorrow at Dvorak Hall in works by Richard Strauss, Penderecki and Stravinsky, with viola soloist Kim Kashkashian. Oct 20: Czech Nonet plays Beethoven's *Sopet* and Schubert's *Octet*. Oct 21, 22: Andrew Litton conducts Strauss and Tchaikovsky (02-286 0111)

● For pre-booking and information about other events, contact city centre ticket agencies (Slna, Wenceslas Square 28 in the passage, tel 02-261602, or Bohemia, Na Příkopě 16, tel 02-228738, or Melantrich, Wenceslas Square 38 in the passage, tel 02-228714) and theatre box offices. Tickets can be ordered from abroad through Bohemia Ticket International, Salvatorská 6, 11000 Prague 1 (fax 02-231 2271)

ROME

Daniele Gatti conducts the Accademia Nazionale di Santa Cecilia in Verdi's *Requiem* on Oct 21, 23 and 24, with soloists Aprile Millo, Florence Quivar, Sergei Larin and Roberto Scanduzzi. Carlo Maria Giulini conducts orchestral concert on Oct 30, 31, Nov 1 and 2 (06-678 0742)

ARTS GUIDE

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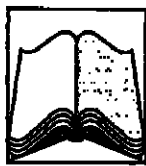
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Super Channel: Financial Times Reports 1900  
Sky News: West of Moscow 0230; 0530  
Sky News: Financial Times Reports 1330; 2030



# Portrait of a prince among pygmies



In July 1982, George Shultz assumed office as US secretary of state. Leonid Brezhnev was then general secretary of the Soviet Communist party. Following the Soviet invasion of Afghanistan in 1979 and the crackdown on Solidarity in Poland in 1981, US-Soviet relations were virtually non-existent. Moreover, the Soviet Union was on the diplomatic offensive, trying to split NATO over deployment of intermediate range nuclear missiles on European soil. And many were questioning the market model for economic development.

But when Shultz left office in January 1989 the opening of the Berlin Wall was only months in the future. In *Turn of Mind: My Years as Secretary of State*, Shultz provides an indispensable account covering, occasionally to the point of tedium, those aspects of American foreign policy with which he was concerned. It is illustrative of how the approach of the US has changed that Shultz, a former Treasury secretary and professional economist, appears virtually to have ignored the economic aspects of international relations.

There is an ongoing debate among commentators and scholars about whether the Reagan administration stepped up military spending in order to drive the Soviet Union to bankruptcy. But there is no indication of such a plan in Shultz's memoirs. Indeed, Shultz and the CIA believed an unrestrained arms-race would favour the Soviets. Because Shultz is writing of the end of the cold war, his treatment has been compared with the magisterial account of the beginning of that struggle by Dean Acheson, the most influential secretary of state since the second world war. But the comparison with Acheson's *Present at the Creation* is unfair to Shultz. For, although his writing is serviceable, Shultz is unable to match the style and sense of drama of his predecessor.

During Acheson's period, the US had to develop a wholly new strategy to deal with an

**TURMOIL AND TRIUMPH: My Years as Secretary of State**  
By George P Shultz  
Scribners, £25.95, 1,184 pages

expanding superpower. The response included the doctrine of containment, the Marshall Plan and NATO. Shultz dealt with a simpler situation - negotiating the end of a conflict with a declining superpower. Shultz was required not to be creative but to show mastery over competing US agency heads. Once Acheson received Truman's backing, the inter-agency struggle was over. But Reagan's support did not settle a dispute: rival barons would continue their obstruction.

In Shultz's portrayal, the chiefs of the various agencies concerned with foreign affairs were, usually, dishonest, cut off from reality, or both. William Casey's CIA was, justifiably, distrusted by Shultz because of its ideological blindness, outright lying and lack of competence. The agency insisted Gorbachev did not want to change the Soviet Union or that, if he did, he could not. The national security adviser, William Clark, is dismissed as having a limited grasp of substance. His successors - first Robert McFarlane, then John Poindexter - are described as having intentionally misled the secretary at state. Casper Weinberger, secretary of defence, generally opposed all negotiations with the Soviet Union.

Contrary to CIA analyses, Shultz believed the Soviet Union was declining and that negotiations with it could be fruitful. The National Security Council staff's answer to the question of contacts with the Soviet Union was "ever a resounding no". Shultz considered the president "a prisoner of his own staff". Yet Shultz obtained the president's approval for moving forward - over the opposition of that staff, the secretary of defence and the director of the CIA.

Shultz tempers loyalty to his president with fidelity to the facts. He praises Reagan's "visionary ideas", such as the strategic defence initiative, but he reveals a detached president, devoid of analytical abil-

ity, who believed what he wanted to believe. "He would go over the script of an event in his mind" and, once that script was mastered, that was the truth; no fact, no argument, no plea for reconsideration could change his mind.

A large portion of Shultz's account focuses on the Iran-Contra affair. Here, Shultz is entitled to, and claims, a great deal of credit. There is no doubt he opposed arms for hostages. Almost alone among the president's men, he recognised there had been a "rogue operation" which posed "an immense constitutional threat". Nonetheless, a detailed review in the New York Review of Books concluded that Shultz's account of Iran-Contra was hopelessly "distorted" and "untrustworthy".

Charles Hill, Shultz's former executive assistant, in what was surely an authorised response, asserted the reviewer failed to understand "that Shultz confined his narrative to what he knew or was told at the time and excludes information or any evidence which came to light after a decision or event occurred". According to Hill, this makes *Turn of Mind* a unique, irreplaceable and unchallengeable historical document, as it reveals a reality that "memoirs" invariably obscure: decisions of statecraft must be taken on the basis of partial and sometimes erroneous reports.

But the book gives no indication that it is confined to what Shultz was aware of at any given time. If Mr Hill is correct on Shultz's approach, the reader has not been given fair warning that Shultz's account of external events may or may not be accurate.

On many occasions Shultz threatened to resign in response to the manoeuvrings and inadequacies of colleagues. But he resisted this grand gesture. We can be grateful that he soldiered on. His judgment was much needed.

**Daniel Davidson**

The author is a lawyer in Washington who served on the National Security Council in the Johnson and Nixon administrations.

Those whom the gods wish to destroy they first make mad. Any god observing the so-called UK economic debate will conclude that the self-destructive wish is intense. Fortunately for the British economy its performance depends much less on politicians and commentators than often supposed.

The merchants of gloom have enjoyed some genuine bad news in the Industrial Production Index. It is best to take the manufacturing sector alone - simply to remove the vagaries of North Sea oil output. Clearly, manufacturing production in the three months to August was well down on the previous few months. Its behaviour lends credence to much of the gloom and out-of-date and unreliable trade figures that UK exports are being seriously hit by the European recession. Even if the UK recovery is still continuing, it has lost some of its wind.

What, however, would someone from Olympus think if, in the face of these contractionary pressures, the British government depressed home demand further by tax increases in the sacred name of cutting the budget deficit? Other governments are being given the same advice. We thus could be on the verge of a vicious circle of insanity, in which country A raises taxes or cuts government spending because of its budget or balance of payments deficit, thereby aggravating the deficits of countries B, C and D which make cuts in their turn. Am I the only Keynesian left to perceive the folly of this process? (My own break with Keynesian orthodoxy came on very different issues.)

Not is the folly confined to the tax side. The one common theme of all UK assessments is how precarious any recovery still is in building and construction. Yet the Treasury apparently regards the sector as a soft target and is choosing this moment to try to withdraw concessions on local authority and housing corporation expenditure.

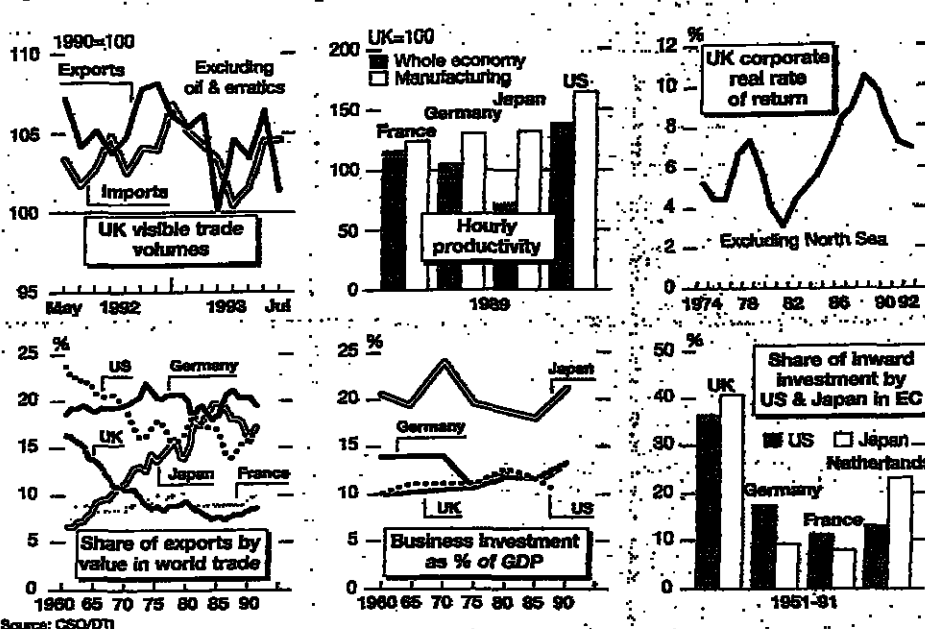
Is there no one prepared to say that the analogy between the national budget and a family one is more wrong than right, and that the function of a national budget is precisely to offset the bias of private households and companies: namely to move into surplus when the private sector is in a spending mood and to go into deficit when the private sector is in a saving one? The time

## ECONOMIC VIEWPOINT

# The folly of fussing about UK deficit

By Samuel Brittan

### UK versus its competitors



horizon over which the public sector needs to come to an appropriate balance - which is not zero - stretches over many more years than would apply to a family or company.

The Treasury response would be that if tax increases proved too contractionary, they could always be offset by interest rate cuts. The real paperback memoirs just published (Nigel Lawson's) show that the official Treasury's instinct has been to go for too low interest rates and too high taxes. The leopard has not changed its spots.

The danger of cutting interest rates is that it might depress the exchange rate - depending on what else was happening in the world. The Treasury does not have freedom to do just what it likes on the interest rate front. Anyone who thinks that the long-term ties linking world inflation, the exchange rate and British inflation have been severed by leaving the European exchange rate mechanism, has a shock coming.

A necessary reminder has been provided by the less favourable inflation indicators, which should not be in the least bit surprising except to those who were misled by the headline figures of the Retail Prices Index. Producer output inflation (excluding foodstuffs) has risen for five consecutive months, and now stands at 3 per cent compared with a year ago. The RPI, excluding mortgage interest payments, now stands at 3.3 per cent compared with a year ago.

These are still astonishingly low figures after a 12 per cent devaluation of sterling and are only possible because of the world recessionary climate and the pressure on UK pay and productivity resulting from two years of ERM membership. The most encouraging factor is that, as the Treasury points out, wage costs have fallen by the largest amount since records began in 1960.

Why put all this at risk with extra indirect tax increases, which will come on top of the nearly 1 per cent addition to

the Retail Prices Index already in the pipeline next year from Norman Lamont's deferred tax rises?

It may at this stage be too late to advise Kenneth Clarke, the chancellor, to rethink his tax increasing plans. So much political capital has been invested in them that the markets might well take it as a weakness if they were shelved.

### The longer term

It is refreshing to move from these follies to a memorandum obtainable from the Department of Trade and Industry. This has the unfortunate title of *Competitiveness* but is in reality a survey of UK long-term performance. A few of its charts are reproduced here.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Public dressed up as private

From Mr Rhodri Morgan MP.

Sir, Your correspondent John Willman (October 7) effectively summarised the problems now facing the government in its attempt to implement its Private Sector Initiative. This so-called "big idea" for the 1990s is intended to allow private finance and private sector expertise to be brought in to build roads, railways, hospital car parks, etc - all previously public sector preserves.

However, the government's experience of trying to keep the private sector to a promise to provide 30 per cent of the funding for the Jubilee Line to Canary Wharf and London's Docklands is no advertisement for the Private Sector Initiative.

The government claims now to be in a position to give the go-ahead for the Jubilee Line because the 2400m private sector component of the total cost of the Jubilee Line has now been agreed with the administrative receivers of Canary Wharf and the creditor banks. When you look closely at what had been agreed, however, it was clear that no such private finance had been found. The "front-end" component of the 2400m had been reduced to £160m, which is fair enough. Nobody is really interested in money that you have to spend after the year 2000.

The £160m, however, has not in the main come from the private sector at all. Some £96m of it is coming from the European Investment Bank. All of the

European Investment Bank's money is government-guaranteed. That is why it is available at a cheaper rate than private risk-bearing finance would be in the international capital markets.

The government's Private Sector Initiative, if it follows the Canary Wharf-Jubilee Line precedent, is really a classic piece of window dressing. The public sector is simply renamed as the private sector, when it suits.

More power to the Jubilee Line elbow as far as I am concerned, but please let's not pretend that it is being financed by the private sector.

Rhodri Morgan,  
House of Commons,  
Westminster,  
London SW1A 0AA

### Tories must take blame for unemployment

From Mr Hugh McCartney.

Sir, Martha Wolf is mistaken ("Something's gotta give", October 2) with his claim that "it is untrue unemployment in the 1990s represents a specific failure of Tory Britain. The UK has not done worse than continental economies Labour so much admires".

I hold no brief for any political party, but I must point out that Britain has been the only country in the Community that is completely self-sufficient in the various forms of energy. Today's Tory government must take responsibility for the mass unemployment and massive imbalances in both finance and trade after 14 years in office.

In addition, it is wrong to make such a dubious comparison, bearing in mind the immeasurable effects of Germany's decision to unite, which has damaged its economy and that of its neighbours so badly.

It cannot be gainsaid that, with all its advantages of energy and having curbed the misused power of the unions, Britain should be leading the European Community in prosperity instead of floundering in debt and disunity.

Hugh McCartney,  
16 South Park West,  
Peabody,  
EH45 9EF

### How NHS bulb-changing activities came to light

From Mr Andrew Greene.

Sir, Discussion of the current NHS light bulb saga, in the media and elsewhere, is revealing a misunderstanding.

NHS staff and managers are finding that exhorting people to work harder and faster when they are already fully stretched merely erodes morale, and any gains in one department are obtained at the expense of other departments.

The light bulb changing story, which applies to most other simple maintenance activities, is typical. Such examples exist in hospitals all over the world.

They are only turning up now because some hospitals, mainly trusts with progressive managements, are starting to take a long, hard look at the way they carry out their work, not just at how well they do what they have always done.

So we should give those hos-

pitals credit for re-engineering their work habits, and urge the rest to do likewise.

Change should actually eliminate unnecessary work, not just allow the same old tasks to be performed better or faster.

It can be a gold mine for the NHS, as it is proving in hospitals around the world. And it can be shown to cut patient stays, reduce waiting lists, improve standards of care, ease the work of staff, and give much better customer service to patients.

While they by themselves are not going to solve the problem, the NHS and the trusts at least deserve credit for what they are trying to achieve.

Andrew Greene,  
Principal, Healthcare,  
Booz Allen & Hamilton,  
100 Piccadilly,  
London W1V 9HA

### The Channel tunnel and competition

From Prof Richard Harrison.

Sir, The impact of the Channel tunnel on the logistics industry ("Opinion: divided over tunnel", 5 October) may well be disputed. What is clear is its minor, anticipated impact on company and industry competitiveness in those regional markets whose relative accessibility is most likely to be affected.

A multi-sectoral study of the competitiveness implications of the tunnel has recently been completed by the Centre for Management Research at the University of Ulster.

Interviews with some 150 manufacturers in Northern Ireland, south-east England, France and Belgium make it clear the tunnel, and the logistics options it provides, will have little impact on companies' inter-regional competitiveness. This is as true for peripheral companies serving southern England and European markets as for companies located in those markets.

Non-price factors, notably product quality and design, and service reliability, will continue to dominate.

What is particularly striking, and ultimately worrying in an assessment of the long-term competitiveness of UK industry, is the reliance of continental European companies competing in north European and UK regional markets, on design, technical ability and quality for competitive edge.

UK companies remain reliant on straightforward price competitiveness. In this context, the opening of the Channel tunnel is an irrelevance, which may deflect attention from more fundamental concerns.

Richard Harrison,  
Ulster Business School,  
BT37 0QB

### Dangers of loss of charity tax status

From Mr Peter M Brown.

Sir, The Charity Commission has made it clear that charities can only campaign as pressure groups on issues where they have direct experience as care providers.

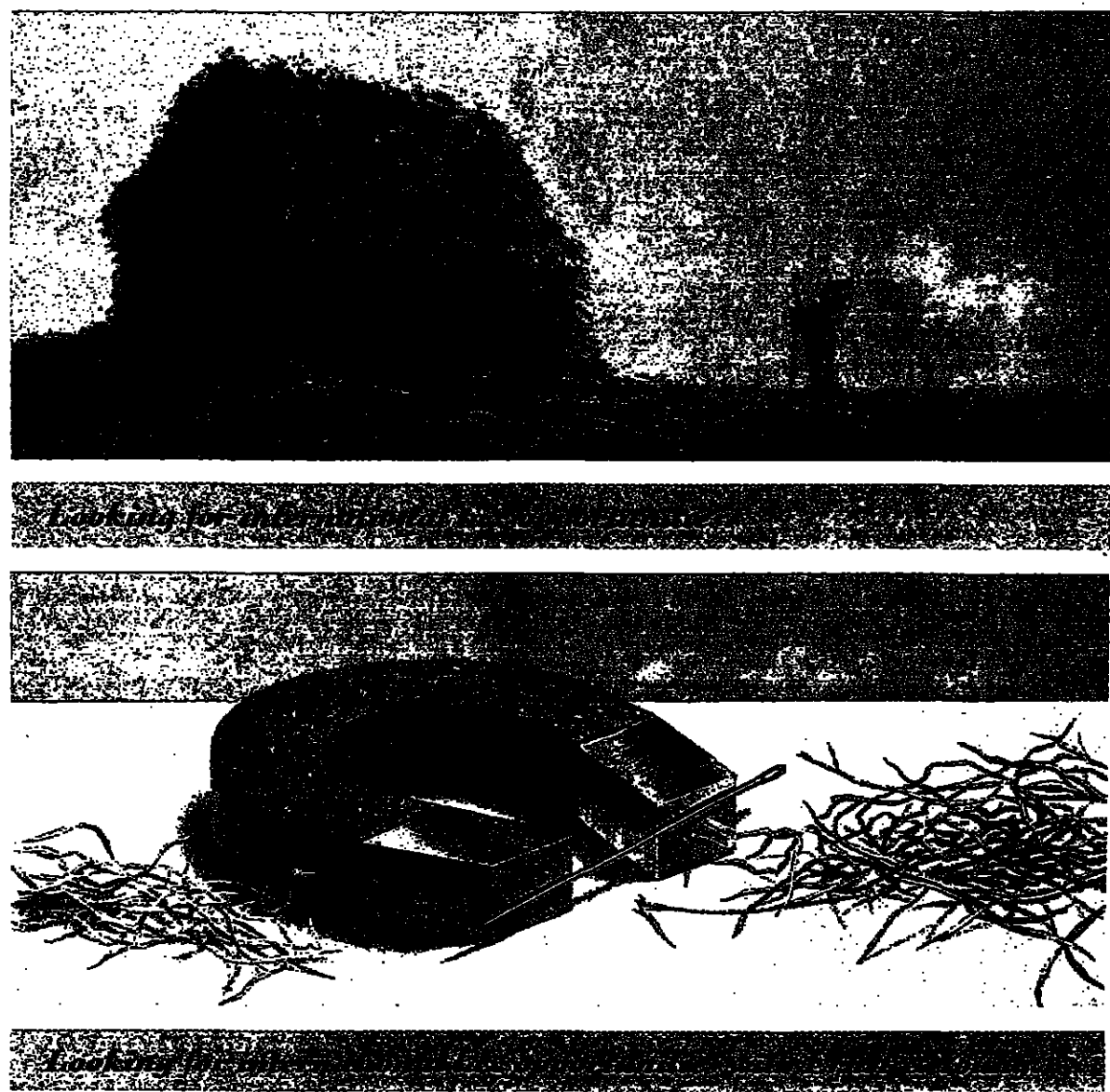
It thus seems unlikely that the recent report, recommending a division between volun-

tary operations providing local or centrally funded care and charities with no agency income, will provide the expected impetus for pressure group and campaigning activities.

As care-providing charities offer an alternative delivery system to local or central government units - which are

effectively operating tax-free - it will seriously restrict voluntary agencies if they have to price their services after losing charity tax status.

Peter M Brown,  
chairman,  
Charity Appointments,  
3 Spital Yard,  
Bishopsgate, E1 6AQ



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## FINANCIAL TIMES

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Thursday October 14 1993

# Uncle Sam in retreat

ONCE THE Soviet Union disappeared, the US was left in sole possession of the cold war battlefield. The machinery of the United Nations was at its disposal. The world looked, with varying degrees of hope and anxiety, to see what it would make of its victory.

Inevitably a debate broke out among the American "foreign policy community". Some favoured a unilateral assumption of world leadership, using American power to promote good and punish evil, recruiting allies where available but never sacrificing the country's freedom to decide for itself when and where its power should be used. Others stressed the need for a multilateral approach, placing American power at the service of the world community and using it only for purposes approved by a broad international consensus, in conformity with international law.

A third school sought to downgrade foreign policy altogether, arguing that the disappearance of the Soviet threat permitted America to turn its attention to its many domestic problems.

Mr George Bush was somewhere between the first and the second schools, and his successor is somewhere between the second and the third. Not himself, strictly speaking, an isolationist, Mr Bill Clinton had no compunction about exploiting popular resentment against Mr Bush's apparently exclusive concern with foreign policy; and he would not have been elected had not Mr Ross Perot, with a much more crudely isolationist message, taken a large share of Mr Bush's vote.

Once elected, Mr Clinton recruited many foreign policy specialists to advise him, most of whom inclined towards the multilateralist school of thought.

Underlying ambivalence

Yet, partly because they are not confident about carrying either the public or the president with them, there remained an underlying ambivalence. The US wanted to work through the UN and other multilateral institutions, but always on the assumption that it would be in the lead - not only politically, but also in the sense of having command of any combat operations in which its troops were involved.

This version of multilateralism

## Innovation in Europe

THE FUTURE of the European Community's collaborative research policy, long promoted by Brussels as the key to technological innovation and industrial competitiveness, is in doubt. Germany, Britain and France are baulking at the Ecu13bn in funding proposed for the next five years. If they stand firm, the Council of Ministers may be drawn into political confrontation with the European Parliament.

As the EC's biggest paymasters, the three governments are motivated chiefly by financial considerations, while the Parliament's overriding interest is in testing the expanded institutional powers conferred on it by the Maastricht treaty. These circumstances are hardly conducive to constructive debate on what the policy has actually achieved, and whether it merits further support.

The evidence is far from conclusive. It is hard to be sure how far joint programmes such as Esprit have yielded commercial results. If they mainly support generic research, not the development of products for market. Most independent observers agree, though, that they have helped increase the flow of knowledge by stimulating contacts between academics and industry across borders.

However, the programmes have conspicuously failed to prevent the Community's deficit on high-technology trade from widening further in the past decade; neither have they saved its indigenous computer and semiconductor manufacturers from near-terminal decline. That these products are still made in Europe is due largely to local investment by US and Japanese companies, much of it prompted by EC trade barriers.

### Wrong targets

This dismal record neither invalidates the case for EC research funding nor implies that more cash would have produced a better outcome. The problem is that policy has been directed at the wrong targets. Too much money has been squandered on failed prestige projects such as high definition television and the JESS microchip scheme, intended to nurture "infant industries" and equip European industrial champions to compete on world markets.

is hard to sustain, because it means asking something of the US's partners which the US itself is not prepared to grant. It also leads to confusion about where the responsibility for policy decisions actually lies. In Somalia, many UN officials feel they have been effectively commanded as extras in a film produced and directed by Americans. Yet US policy-makers have blithely put the blame on the UN for things that have gone wrong.

### Serious resistance

That things have gone wrong neither side now seriously disputes. But the damage extends far beyond Somalia itself. The whole notion that the UN can bring order into parts of the world afflicted by chaos has been discredited. The remarkable success of the simultaneous, but much more carefully planned, and much more genuinely multilateral, operation in Cambodia has been eclipsed. To much of the world the UN has been portrayed as a mere tool in the hands of a blundering and arrogant superpower, instinctively inclined to tackle all problems with a show of military force, yet ready to back off as soon as it encounters serious resistance. To the US public, the UN has been proved a dangerous will o' the wisp, luring idealistic American soldiers to a humiliating and pointless death.

The result has been a loss of nerve among the multilateralists in the State Department, the Pentagon, and the National Security Council, and a reassertion of Mr Clinton's own instinctive reluctance to get bogged down in complex foreign policy issues. Already, when he addressed the UN general assembly last month, he was clearly multiplying the conditions that had to be met before the US would involve itself in further peacekeeping or "peace-making" operations. The chances of US troops being sent to Bosnia, never very great, are now virtually zero. From now on, the US is unlikely to risk its forces in any conflict where there is not a direct and more or less self-evident threat to its national interests. Those who believed the cold war would be followed by a period of Pax Americana, worldwide or even in Europe, need to think again, and urgently.

The government of the east German state of Saxony is carefully restoring the Frauenkirche in Dresden, one of Germany's most beautiful baroque churches, bombed by the British in February 1945 and left in ruins for four decades. Work is expected to last until 2006.

Three years after German unification, a similar process of slow restructuring is taking place in the east German economy.

The Bundesbank, in its latest monthly report, has recorded the first sign of sustained growth, with manufacturing - hardest hit by the radical upheavals of the last three years - finally showing rising orders and production.

But compared with the Frauenkirche, the reconstruction of east Germany is less balanced and less secure. While east Germany started from a much lower base, it has, like west Germany, suffered from the unfavourable global economic environment. Also hitting production has been the rapid introduction of the D-Mark and the collapse of markets elsewhere in eastern Europe and the former Soviet Union.

Large-scale transfers from west Germany, totalling around DM180bn (£73bn) this year, have been needed to make up the gap between what east Germans spend and what they earn. Total east German demand is almost double domestic output as measured by gross domestic product. If east German living standards are to be maintained, funding of this magnitude - amounting to about 5 per cent of west German GDP - will be needed for the next decade or so.

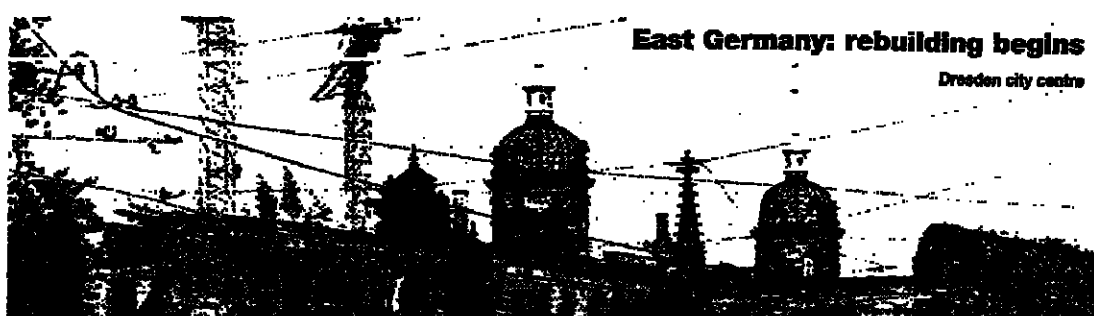
At least, though, the east German economy is now growing. In 1992 growth was 7 per cent and is expected to be about the same this year.

Particularly important in sustaining that growth has been the buoyancy of the construction industry, even though the rate of increase has slowed recently. A third of 1993's transfers from west Germany will be channelled into infrastructure projects. The impact is obvious in the improved quality of roads, the water network and telecommunications.

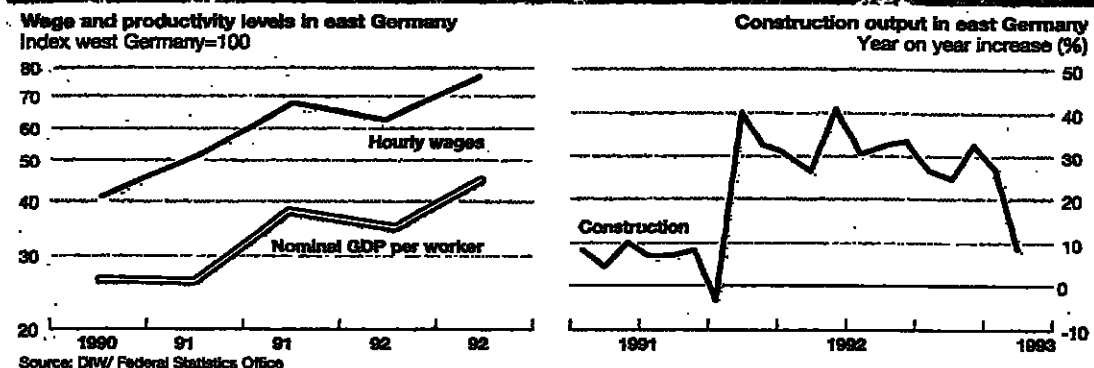
Also showing fast growth in the last three years have been family-based workshops, representatives of the *Handwerk* craft enterprises which are common in west Germany. Economic liberalisation created both a demand and supply of small-scale businesses and 870,000 such enterprises have been set up since unification. The Association for German Craftsman, which represents these businesses, believes they contribute about 7 per cent of Germany's total output - but, because of difficulties in measuring their contribution to GDP, official growth figures probably underesti-

Improved industrial competitiveness is crucial for east Germany's economic recovery, says Judy Dempsey

# A painstaking restoration



East Germany: rebuilding begins



mate their impact.

Yet the buoyancy of construction, services and small businesses is not enough to propel eastern Germany towards a self-sustained recovery. If east Germany is to become economically competitive - within Germany or abroad - the future of the manufacturing and industrial sectors will be critical.

Large swathes of eastern Germany's under-capitalised manufacturing sector, which, before unification, contributed about 70 per cent of the region's GDP, have been forced to close because they were uncompetitive. There were two main reasons. First, monetary union led to a rapid escalation of both costs for manufacturers and output prices. Second, the demise of Comecon, the socialist trade bloc, deprived eastern Germany of markets which before 1990 had accounted for more than 75 per cent of eastern Germany's exports.

Since unification, the Treuhand agency, charged with privatising and restructuring east German industry, has embarked on a radical programme. Of the 13,000 enterprises under its control, more than

10,000 have been sold, 2,500 closed, and 500 are being prepared for privatisation.

But the performance of the newly privatised sector has been disappointing. Mr Heiner Flassbeck, chief economist at the Berlin-based German DIW Institute for Economic Research, says a typical enterprise is making losses equivalent to about 30 per cent of annual turnover.

The main brake has been high wage levels. In March 1991 IG Metall, the engineering trade union, together with former east German managers and west German employers, agreed that wages in eastern Germany should reach west German levels by 1994. But rising wages have stifled competitiveness. Subsequently, the 1994 deadline has been extended to 1996.

Mr Thomas Mayer, chief economist at the Frankfurt office of Goldman Sachs, the securities house, says the agreement has held back much-needed efficiency gains. He estimates productivity in eastern Germany is about 65 per cent below western German levels, while wages in the east are about 70

to 80 per cent of those in the west. That makes unit labour costs about 70 per cent higher. "This has had a debilitating effect on managers. They have little room to manoeuvre," he says.

But Mrs Birgit Breuel, head of the Treuhand, says high wage levels are not the sole reason that east Germany's economy has not yet become self-sustaining. She believes that its manufacturing companies need pump priming in the form of investment and orders from west Germany and elsewhere. "The companies for which we are responsible have really improved their quality. What they need is orders. At the moment they get the orders, they increase their productivity immensely. But the [level of] orders they receive is linked to the recession in western Germany."

Despite the recession, the level of investment by western German companies has been holding up, partly because such strategic decisions are taken years in advance. But forecasts for next year are less optimistic. The Munich-based Ifo Economic Forecasting Institute expects investment in manufactur-

ing in eastern Germany to rise by 15 per cent this year, but forecasts a one-fifth decline in west German industry's investment in machinery and equipment next year.

Many economists believe that if east Germany is to attract sufficient future investment, the region's current high level of federal grants for investment and tax benefits will have to be maintained - and possibly wage restraint introduced. According to the DIW, this year's federal subsidies to eastern Germany, including grants, tax concessions, soft loans and subsidies by the Treuhand, total DM55bn, or about 20 per cent of the region's GDP. These are in addition to the federal transfers, which go direct to governments of the eastern states.

Discontinuing such a high level of subsidy could hit companies in the west as well as the east. Mrs Breuel of the Treuhand says: "If they [west Germans] do not give orders to eastern German companies, the transfers will have to go on for a long time. And they will have to be paid for by taxes."

Adding to the burden on west Germany would be continuing high unemployment. Before 1990, 92 per cent of the eastern German workforce were employed. Today 15 per cent of the 7.5m strong labour force is jobless. Taking account of job creation schemes and short-time working, the real unemployment level is at least 35 per cent.

Though high unemployment reinforces arguments for wage flexibility, the adverse effect that breaking the link with west German wages would have on living standards means the German government is looking more towards continuing the subsidies and transfers in the hope of stimulating orders. The fear of some economists is that eastern Germany might become a "Mezzogiorno", a part of southern Italy that is heavily dependent on transfers from the prosperous north.

Mr Kurt Biedenkopf, the prime minister of Saxony, disagrees. "The whole comparison with a Mezzogiorno is absolute nonsense. We are reconstructing an economy [in Saxony] that had the highest GDP per capita in all of Europe immediately after 1918. It has a 200-year history of industrialisation. A Mezzogiorno never had a combination of culture and industry."

Despite Mr Biedenkopf's bold statements, there seems little likelihood of a significant cut in transfers and subsidies from the west to east in the next decade. The growth that has taken root in some sectors will have to be maintained and perhaps accelerated if reconstruction leading to a self-sustaining economy is to keep pace with the rebuilding of Dresden's Frauenkirche.

# Why arts need public money to flourish

It is depressing enough to read as ill informed and ill thought-out an article as David Sawers's "No case for subsidies to the arts" (Personal View, September 30), but the realisation that he is an economic consultant writing for the Institute of Economic Affairs fills one with alarm.

The fact is that the commercial and subsidised theatre have been totally interdependent for many years. The reason the British theatre is the envy of the world, both artistically and financially, is that, since public money went into revivifying regional theatre from the 1960s onwards, a tremendous talent base has developed through the network of subsidised theatre companies across the UK, where actors, directors, designers, technicians and managers learn their craft. It is misleading to say subsidised theatres still account for the majority of the audience. Most UK theatres outside London's West End

were built, saved or funded by public money through the Arts Council and local authority grants. Even those now in private hands were brought back from disrepair and neglect during the 1980s and 1990s with public money and effort.

At any time, most of the plays and several of the musicals in the commercial West End have come out of subsidised theatres. The international blockbuster musicals which attract millions of people (and therefore earn many millions in revenue) have nearly all been created by directors and designers whose main professional experience has been in the subsidised theatre. The wide choice of shows available in London and in theatres and concert halls around the country generates a vast amount of money for the British economy. The state tourist authorities in countries such as Australia and America have calculated that, for each dollar spent at the theatre box office, on average a further \$2.70 is spent in the local economy through, for example, travel, hotels and restaurants.

The arts are undoubtedly one of Britain's important industries and,

unlike most of its other industries, does not suffer from foreign competition. Its only problem is one of under-funding, not over-funding as Mr Sawers thinks.

At this time the whole fabric of the British theatre is under threat from government cuts. What is going to go to the wall is not the high-profile theatre that Mr Sawers's "richer classes" visit, but the

**If there was no subsidised theatre, choice would shrink dramatically - and so would audiences**

grass roots of the theatre that ordinary people need and support: Theatre in Education, schools' programmes, flourishing regional theatres where Shakespearean productions are properly cast, grants for drama students, etc - in fact, all the areas where the next generation of productive talent and audiences will come from.

When I started producing in the

mid-1960s, the only way I could get a show together financially was by working with a subsidised repertory theatre to launch a tour. The majority of shows that my fellow producers and I put on during our formative years came from state and local authority-subsidised theatres.

If there was no subsidised theatre, the choice of theatre available would shrink dramatically. I am convinced that, contrary to Mr Sawers's opinion, audiences would also shrink, because it is variety that stimulates both artists and public alike. Popular musical shows such as *Cats*, *Les Misérables* or *Miss Saigon* are only spectacular successes because they engage the talents of such world-class directors as Trevor Nunn and Nicholas Hytner. These directors' main body of work can only thrive in the subsidised sector, where they can work on new and classic plays and great operas, properly cast and realised on a scale to do justice to the author's work.

Whenever I visit America, people constantly bemoan the fact that there are so few directors and designers coming through in the US to revitalise the theatre, whereas

Britain has a constant stream of new talent. The reason is simple: the US does not have the fabric of subsidised theatre that the UK does.

Subsidies give a cushion for learning and experiment, just as a commercial company invests in the testing of a new product that may or may not go into successful production. If all funding were put into the hands of local authorities, we would indeed be in the situation Mr Sawers considers undesirable, "because it gives politicians and public servants the opportunity to influence the development of the arts".

At least the Arts Council, whatever its shortcomings, is a body whose only purpose is to develop and nurture all the arts, and not a collection of local politicians whose agendas may only peripherally include the arts.

Art has a much longer shelf life than commerce, and the UK cannot afford to squander any more of its artistic fabric or it will disinherit future generations.

Cameron Mackintosh

The author is a theatrical producer

## Play it again, Ken

■ Kenneth Baker may not have enjoyed exactly glowing reviews of his memoirs, but at least his remarks about Sir George Jefferson are suitably diplomatic.

As minister for information technology in the early 1980s, one of Baker's first tasks was to oversee the privatisation of British Telecom.

In the first appearance he makes in the memoirs, *Kenneth Baker: The Turbulent Years, My Life in Politics*, Jefferson, then chairman of BT, is described as "very co-operative" ... even if "he was irked by having to come and see me about quite trivial matters".

Jefferson may remember the ultimately fairly successful, battles over the shape of post-privatisation BT slightly differently. Anyway, it will be Baker who is coming to see him, now that the former cabinet minister has joined the UK board of Videotron, the Canadian-controlled cable company, of which Jefferson is chairman.

One of the largest operators in the UK, Videotron wants Baker aboard because he "kicked off the whole cable business" - and forgives him entirely for the inaccuracy of his 1983 prediction that multi-channel cable TV would be in every British household before the end of the decade.

At any rate, Baker is now in a

position to roll up his sleeves and hasten the advent of the wired city.

### Sinking feeling

■ It was more a case of sinking than floating at Alders yesterday. The department store and duty free retailer planning a stock market listing in November was due to present its pathfinder prospectus to stockbrokers in the City, but was hampered by the weather.

Finance director Tony Collier was stuck on a train from Bath which was stopped by rain water lapping the sleepers. And copies of the document itself were in a van from the printers which was held up by floods.

Luckily chief executive Harvey Lipsith's train had made it to town and he conducted the presentation single-handed.

### Change agents

■ While small investors don't normally cause much of a stir in Zurich, a plague of them has lately rocked the city's public transit system by cleaning up profits of about 7,000 per cent on each minuscule outlay.

Their bonanza began with the discovery that a Russian one rouble coin, worth about 2p, is the same size as a Swiss five franc piece, representing over £2.30.

Hence by using a rouble to buy

## OBSERVER



a cheap ticket from the system's vending machines, they netted change in francs worth about £1.40.

Transit authority director Rolf Künzle says the rouble trouble, which began in February, has cost the system nearly \$56,000. But the machines have now been fixed to take neither five franc coins nor roubles pending development of an automatic way of discriminating between them.

An added worry initially was whether the change agents were coming in from Russia or local gnomes corrupted by the massive margins.

The question was resolved, however, when police arrested three

Russians equipped with sacks of rouble coins and a map of the transit network.

### Survey sell

■ A refreshing antidote to publishers' hype reaches Observer from the Behavioral Sciences Research Press in Dallas.

A recent survey has been asking "what makes British sales people hit the road, pick up the phone and go for the close day after day?" According to the two behavioral scientists who have been out on the road themselves, 37 per cent of British sales people are mainly motivated by money - the same proportion, it emerges, as in the US.

Even more "interesting", the faster for the research goes on, only 20 per cent of Canadians are driven by such considerations - "despite also being former royal subjects and America's closest neighbors".

So what accounts for these cultural differences? "We don't know" the authors respond with disarming honesty.

### Art of survival

■ There is no stopping John Tusa. Denied the chance to apply for the director-generalship of the BBC, he had also received insufficient credit for how he ran the BBC World Service. Now he has quit

as Master of Wolfson College after less than a year.

But the academic spat at Cambridge was last week. This week Tusa, who still presents the lunchtime news for BBC Television, becomes chairman of the advisory committee for the government art collection.

His new influence extends, therefore, to all 15,000 works of mainly British art which adorn the walls of government offices and British embassies.

At newly-reborn Wolfson College, one of Tusa's many frustrations was the fact that there was no room for modern art in the master's dining room and elsewhere because of all that space devoted to portraits of ancient deities.

Described by one friend as "pathologically decisive", Tusa would have had exceptionally little patience with academic dithering. Watch out for some fast thinking, though, on how to enliven the walls of Whitehall.

### Misrouted

■ A reader writes in to point out that, while coming to accept that his luggage may go missing, he thinks British Airways, in its current dream ticket promotion, goes too far.

The offer reads: "Two flights on Club World to New York could give you and your partner the chance to stroll through the Arab bazaars of Casablanca."



## Inflation rate rises by more than forecast and manufacturing output falls Double blow for UK recovery

By Peter Norman and  
Emma Tucker in London

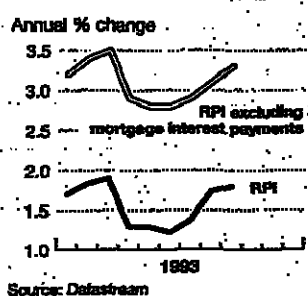
BRITAIN'S hopes of sustained, non-inflationary recovery were dealt a double blow yesterday with news of a fall in manufacturing output over the summer and a higher than expected rise in retail prices last month.

Manufacturing output fell by a seasonally adjusted 0.4 per cent in August, confounding expectations by market analysts of a 0.4 per cent rise in the month, while the year-on-year rate of retail price inflation quickened for the third successive month to 1.8 per cent in September, up sharply from June's 1.2 per cent low.

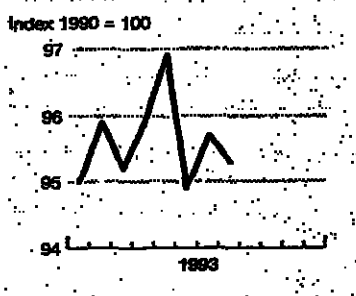
More worrying for Mr Kenneth Clarke, the chancellor of the exchequer, who meets his ministers and senior Treasury officials tomorrow to discuss the shape of his first budget on November 30, was September's rise to 3.3 per cent in underlying inflation, excluding mortgage interest payments, from 3.1 per cent in the year to August.

Central Statistical Office figures also showed that growth in industrial production faltered during the summer with manufacturing output down 0.7 per cent in the three months to August 31 compared with the previous three-month period.

### UK inflation



### UK manufacturing production



A confidential Treasury briefing paper leaked by the opposition Labour party last night said manufacturing output would have to grow by about 2 per cent in September to meet expectations of manufacturing output growth of about 1/4 per cent a month in August and September.

Yesterday's figures, following closely on Monday's news of a widening UK trade deficit and rising producer price inflation, underlined the fragility of the UK recovery and pointed to a narrowing of Mr Clarke's room for manoeuvre in the budget.

Weak output could undermine his capacity to raise taxes to cut Britain's \$50bn (\$75bn) annual budget deficit. The increase in underlying inflation to within the top quarter of the government's 1

to 4 per cent target range could crimp his scope to increase indirect taxes such as value added tax as well as limit his ability to cut interest rates to offset any fiscal tightening.

These conflicting currents were reflected in financial markets yesterday. Gilts and sterling fell sharply on the two reports, reflecting fears of higher inflation and concern about the recovery. But they later made up some ground: 10-year gilt-edged stock closed down 1/4 points while sterling at the London close was 1/4 pence lower at DM2.4425.

Equities weakened with the FT-SE 100 index down 23.5 points by early afternoon. Share prices later recovered as investors reasoned that Mr Clarke would now be less likely to raise taxes. The

FT-SE 100 index closed at 3,080.9, down 13.8 points.

Analysts said yesterday's figures were disappointing. But both the Treasury and the Bank of England said the recovery was still on track. A Bank spokesman said it expected inflation to remain in its target range.

Mr Stephen Dorrell, financial secretary to the Treasury, said Britain was still heading for 3 per cent growth in mid-1994 and denied that the recovery was fizzling out. "We never said this would proceed in a straight line". Because state pensions and benefits are upgraded in line with September retail price inflation, next April's rise in pensions and benefits will be the smallest since the early 1980s.

The increase in inflation reflected widespread price rises for retail goods, in particular higher petrol prices and more expensive second hand cars. More inflationary pressures are in the pipeline, causing some analysts to fear that the 4 per cent target ceiling will be breached early next year.

Delayed measures announced in the last budget in March - including the extension of value added tax to domestic fuel - will add an extra percentage point.

Don't fuss about deficit, Page 12

## Kohl urges EC to resist protectionism

By David Buchanan in Paris

GERMAN Chancellor Helmut Kohl told the French Senate yesterday that Europeans should "resist the temptation of protectionism", in a speech clearly designed to influence France's position in world trade talks.

Mr Edouard Balladur, the French prime minister, meanwhile told the National Assembly that France would settle for a General Agreement on Tariffs and Trade accord in the form of "a progress report" by the December 15 negotiating deadline "if certain parties were to propose this".

Mr Balladur thus appeared to back away from the campaign that his ministers have been waging

in recent days for an "interim GATT" deal this year, leaving the contentious issues of agriculture and broadcasting for later.

But Mr Balladur gave little sign of conceding on the substance of France's demands in GATT. Calling for government and opposition parties to unite to defend "our country's national interests", the prime minister cited a series of unfulfilled demands on steel, aerospace, transport and market access, and warned that France would not allow itself to be "forced to take one extra hectare of land out of production" when countries like the US were putting their set-aside land back into production.

Stressing the need for freer trade, particularly with east

Europe, Mr Kohl said "West Europeans would be committing a fatal error if they thought that in removing competition by closing their markets they could benefit in any way whatsoever". Over the longer term, he said it was unthinkable for him as a German that Poland and the Czech Republic would stay outside the EC.

Using his Senate speech to try to give new impetus to the battered French-German alliance as well as to the EC, Mr Kohl said it was inevitable that the Bonn-Paris axis was sometimes prone to "disillusions and doubts". But the two countries shared a common fate and must form "the heart of the European Union", created by the Maastricht treaty.

Germany had proven its solidarity with France with "concrete acts" such as Bundesbank support for other EC currencies. "This has not been without problems for the Bundesbank, even if the latter has not made these public", Mr Kohl said.

After Tuesday's German court approval of Maastricht - which gives the French government the green light to put the Bank of France's independent status into effect - Mr Kohl called for strict observance of the treaty's "time-table and conditions to ensure monetary stability".

Mr Kohl said that "a kind of improved free trade zone is not enough". A monetary union was not viable without a political union, he warned.

## Privatisation is halted

Continued from Page 1

on charges of breach of trust while in office.

The new cabinet was sworn in yesterday. Mr Papandreu did not appoint a deputy prime minister, but created a special cabinet post for Mr Antonis Livanis, an adviser who worked closely with him when the Pasok was in power from 1981 to 1989.

The post of economy minister went to Mr Giorgos Gennimatas, Pasok's most popular member, who is suffering from cancer.

The foreign minister will be Mr Carolos Papoulias. Ms Melina Mercouri heads the culture ministry.

## EC bids to break trade deadlock

By David Dodwell, World Trade  
Editor, in Brussels

THE European Community is to propose cuts in tariff protection for manufactured goods in an attempt to break the deadlock in talks on world trade liberalisation.

The initiative, announced by Sir Leon Brittan, EC trade commissioner, after a day of negotiations with Mr Mickey Kantor, his US counterpart, is in response to the lack of detailed progress on market opening deals reached in Tokyo by leaders of the Group of Seven industrial nations.

"Everybody has been waiting for everyone else. We are not pre-

pared to wait any longer," Sir Leon said.

Sir Leon also called for a special ministerial meeting of the so-called Quad nations - Japan, Canada, the US and the EC - to resolve disagreements on the July commitments. There is rising concern that delays are jeopardising negotiators' ability to conclude the Uruguay Round of the General Agreement on Tariffs and Trade by its December 15 deadline.

Mr Kantor yesterday gave conditional support for a special Quad meeting, insisting that "further progress" was needed in negotiations before such a meeting would be helpful. Talks with the EC continue today. The EC

has held back its tariff offer in the hope of winning further market-opening concessions from Japan and the US.

As a result, it has faced criticism from trading partners over the small size of its offer, which averages an estimated 26 per cent tariff cut. By comparison, Japan's offer amounts to 60 per cent, Canada's to 50 per cent and the US to 37 per cent. An EC official said the new schedule of tariff cuts, to be tabled in Geneva tomorrow would raise the average EC cut above 33 per cent.

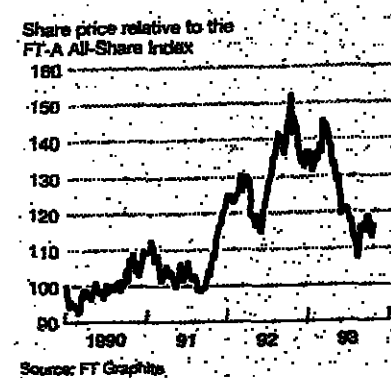
Trade in farm products, which the French government would like to remove from the Uruguay Round agenda, was not addressed.

## THE LEX COLUMN

## Wiring up Tinsel Town

FT-SE Index: 3080.9 (-13.8)

### Unilever



One reading of yesterday's data is that a budget of minimal change is becoming more likely. In the short term that might please the equity market, which, having enjoyed a sharp rebound in earnings so far this year, is starting to worry about whether the momentum can be sustained into 1994. But it would only leave the job of correcting the FSR to later.

In fact there may still be sense in a more radical shift in policy mix at the time of the budget. Manufacturing output is not weak because of poor consumer demand. Rather it is investment goods which have been hit, while weak European markets are holding back exports too. The most helpful palliative would be for lower continental interest rates. Falling that a slightly lower pound might secure some market share for British exporters. Higher tax on individuals would assist industry while having some disinflationary benefit into the bargain.

### UK economy

The latest UK price and production figures appear to illustrate the dilemma facing the chancellor. If the economy is weak, the argument goes, he cannot easily put up taxes in November. But with the underlying rate of inflation at 3.3 per cent, it also seems risky to cut interest rates. It would be acutely embarrassing if the underlying rate subsequently moved to the top of the 4 per cent target ceiling, or even above it. The government's desire to avoid this may even dampen enthusiasm for higher VAT charges, which only increase the headline rate of inflation.

### Générale des Eaux

Not long ago Générale des Eaux seemed to cast its substantial shadow across the UK water industry. A number of smaller water-only companies still fall within its empire. But fears of a French invasion proved unfounded. As its planned Fröbn-4m rights issue shows, Générale has its hands full elsewhere. Proceeds will cover perhaps three years capital investment in SFR, which holds one of two digital cellular phone licences in France. Construction and property interests have been mauled by recession at a time of rising capital spending, so gearing will be well over 100 per cent even after

the capital increase.

Générale will have little incentive to look again at the UK's privatised water companies after takeover restrictions are lifted at the end of next year. The attraction to any potential bidder will depend on price limits set by the regulator for the second half of the decade. Even on the most optimistic assumptions, though, water bills will not rise fast enough to cover investment. That could be an effective poison pill against a predator facing substantial calls on capital elsewhere.

Nor does Générale need a UK water acquisition for earnings growth. Its investment in telecoms should start to pay off in the middle of the decade and lower French interest rates will cut the cost of servicing its debt mountain. Its existing French and international water interests look capable of delivering decent profits growth, without the bother of UK-style regulation.

### Unilever

The 1.6 per cent bounce in Unilever's shares yesterday in response to perky sales predictions from Procter & Gamble provides another illustration of how closely UK consumer product stocks have shadowed their US peers this year. The rekindling of positive sentiment towards the US soap suds industry was strong enough to override worries that P&G's gains were being made at Unilever's expense.

The striking correlation in share price performance between the two sectors is puzzling, however, given that none appeared to exist in the 1980s. Marlboro Friday has set the tone for both markets. Talk of the food industry's long-term secular decline has spread in New York and London. Both national sectors have suffered in common as defensive stocks have fallen out of fashion. Both, too, have faced similar problems with sluggish recovery, rampant retailers, and the turn of the margin cycle.

Attention on both sides of the Atlantic is focusing on those companies which can evade such pressures by generating sustainable earnings in emerging markets. Both Nestlé and Unilever are well placed to benefit from this perception. The challenge for both will be to stabilise margins in Europe and the US while driving growth elsewhere. As the industrial heir to two colonial empires, the Anglo-Dutch company may have a particular historical advantage. Nestlé, though, has been driving especially hard in the Far East.

**FT WORLD WEATHER**

**Europe today**

A polar front over the Channel, the Low Countries, southern Denmark and south-eastern Finland will cause clouds and an abundance of rain. Behind the front, a northerly flow will bring cool and unsettled conditions. Some showers will develop, but there will be clear spells too. Most of Ireland, Sweden and southern Norway will remain dry. A disturbance over eastern France, the Alps and Poland will trigger thundery showers. By early afternoon, eastern Spain will have plenty of sunshine, but further to the west, clouds will increase with showers arriving in north-western Spain and Portugal. High pressure over south-eastern Europe will be persistent and should continue to produce abundant sunshine.

**Five-day forecast**

High pressure over the Atlantic will build into north-western Europe bringing settled conditions. After the weekend, it will move toward the Baltic Sea. A frontal zone associated with a developing depression near Iceland will bring clouds and rain to the northern British Isles. In south-western Europe, low pressure will trigger thundery showers while the sunshine in south-eastern Europe will diminish as the high pressure area moves slowly eastwards.

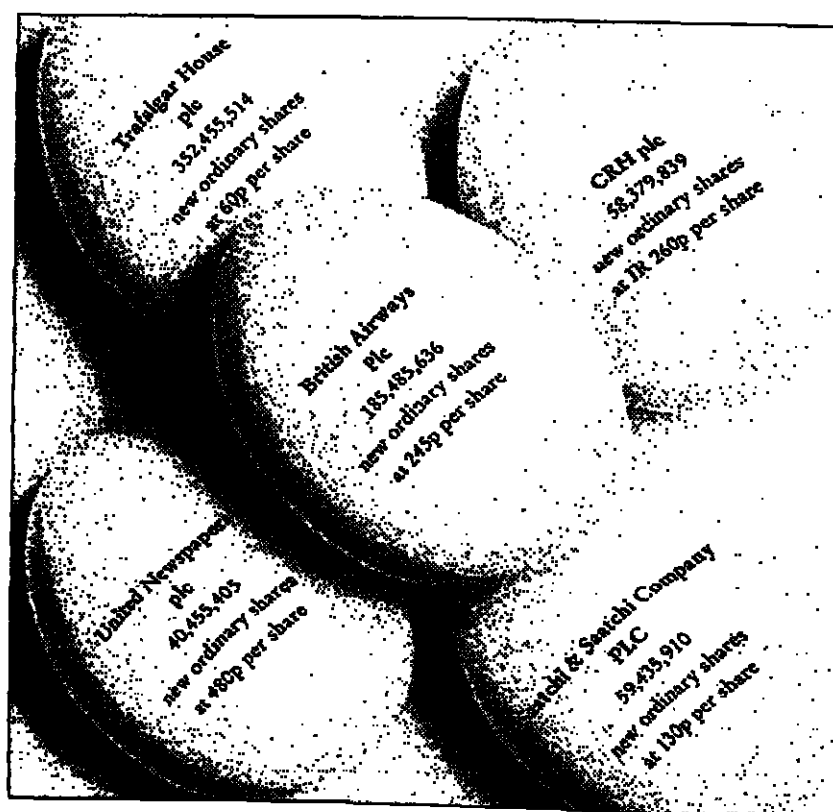
**TODAY'S TEMPERATURES**

| Location     | Maximum | Minimum | Weather |
|--------------|---------|---------|---------|
| Abu Dhabi    | 31      | 24      | sun     |
| Accra        | 31      | 24      | sun     |
| Algiers      | 21      | 14      | sun     |
| Amsterdam    | 11      | 8       | rain    |
| Athens       | 27      | 20      | sun     |
| B. Aires     | 24      | 18      | showers |
| B. ham       | 24      | 18      | showers |
| Bangkok      | 34      | 24      | cloudy  |
| Barcelona    | 21      | 14      | sun     |
| Beijing      | 18      | 10      | showers |
| Belfast      | 11      | 8       | showers |
| Bombay       | 31      | 24      | sun     |
| Buenos Aires | 24      | 18      | showers |
| Cairo        | 31      | 24      | sun     |
| Calcutta     | 31      | 24      | sun     |
| Canton       | 24      | 18      | sun     |
| Cebu         | 31      | 24      | sun     |
| Colon        | 31      | 24      | sun     |
| Dakar        | 31      | 24      | sun     |
| Dallas       | 24      | 18      | sun     |
| Delhi        | 31      | 24      | sun     |
| Dubai        | 31      | 24      | sun     |
| Dublin       | 11      | 8       | showers |
| Edinburgh    | 11      | 8       | showers |
| Faro         | 20      | 14      | sun     |
| Frankfurt    | 11      | 8       | showers |
| Geneva       | 11      | 8       | showers |
| Hong Kong    | 24      | 18      | sun     |
| Iskand       | 24      | 18      | sun     |
| Jersey       | 11      | 8       | showers |
| Karachi      | 31      | 24      | sun     |
| Kuwait       | 31      | 24      | sun     |
| Las Palmas   | 24      | 18      | sun     |
| Lima         | 24      | 18      | sun     |
| Lisbon       | 24      | 18      | sun     |
| London       | 11      | 8       | showers |
| Luxembourg   | 11      | 8       | showers |
| Lyon         | 11      | 8       | showers |
| Madrid       | 24      | 18      | sun     |
| Manila       | 31      | 24      | sun     |
| Melbourne    | 24      | 18      | sun     |
| Mexico City  | 24      | 18      | sun     |
| Miami        | 24      | 18      | sun     |
| Moscow       | 11      | 8       | showers |
| Montreal     | 11      | 8       | showers |
| Mumbai       | 31      | 24      | sun     |
| Nairobi      | 31      | 24      | sun     |
| Naples       | 24      | 18      | sun     |
| Nassau       | 24      | 18      | sun     |
| New York     | 24      | 18      | sun     |
| Nice         | 24      | 18      | sun     |
| Nicosia      | 24      | 18      | sun     |
| Oslo         | 11      | 8       | showers |
| Paris        | 11      | 8       | showers |
| Perth        | 24      | 18      | sun     |
| Prague       | 11      | 8       | showers |
| Rangoon      | 31      | 24      | sun     |
| Reykjavik    | 11      | 8       | showers |
| Rio          | 31      | 24      | sun     |
| Rome         | 24      | 18      | sun     |
| S. Francisco | 24      | 18      | sun     |
| Seoul        | 24      | 18      | sun     |
| Singapore    | 31      | 24      | sun     |
| Stockholm    | 11      | 8       | showers |
| Strasbourg   | 11      | 8       | showers |
| Sydney       | 24      | 18      | sun     |
| Taipei       | 31      | 24      | sun     |
| Tel Aviv     | 31      | 24      | sun     |
| Tokyo        | 24      | 18      | sun     |
| Toronto      | 11      | 8       | showers |
| Turkey       | 24      | 18      | sun     |
| Vancouver    | 11      | 8       | showers |
| Venice       | 24      | 18      | sun     |
| Vienna       | 11      | 8       | showers |
| Warsaw       | 11      | 8       | showers |
| Washington   | 11      | 8       | showers |
| Wellington   | 11      | 8       | showers |
| Winnipeg     | 11      | 8       | showers |
| Zurich       | 11      | 8       | showers |

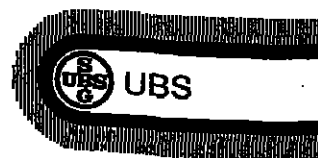
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## INTERNATIONAL COMPANIES AND FINANCE

# Bremen holds talks to sell Klöckner-Werke steel mill

By Ariane Genillard in Bonn

BREMEN, the German city-state, yesterday confirmed it was holding talks with domestic and international steel companies in an attempt to find a buyer for the integrated steel mill of Klöckner-Werke, the ailing German steel group.

Mr Claus Jäger, the state economics minister, said that Sidma, a subsidiary of the Arbed steelmaker in Luxembourg, was among those in the discussions.

The talks form part of the state's strategy to fend off a rival offer made by Thyssen and Krupp-Hoesch, Germany's two largest steelmakers.

The state, which has one of the highest unemployment rates in Germany, is concerned about the future of the 4,900 jobs at the Klöckner-Werke plant. It says the Thyssen's proposal would only keep 1,000 employees.

Thyssen yesterday said it had no intention of closing down any part of the mill. It said it was only interested in buying the cold-rolling mill and not the whole integrated mill.

Mr Jäger said Thyssen and Krupp-Hoesch wanted to acquire the Klöckner-Werke plant to partially close it and eliminate a competitor in the German steel market. "We are instead trying to find a solution with other companies who know the steel market."

Sidma, which is 67 per cent owned by Arbed, said that it had an interest in the future of Klöckner-Werke's plant because of its co-operation with the German group in Belgium. Klöckner-Werke owns 25 per cent of Allegheny Ludlum Corporation (ALZ), a subsidiary of Sidma in Ghent which produces stainless steel. It also has a 30 per cent stake in Sikel, a subsidiary producing metal

sheets for household goods.

Sidma said: "We are investigating the possibility of some co-operation between Sidma and Klöckner-Werke. But it is too early to say what form this co-operation will take."

In Luxembourg, Arbed yesterday denied any intention to acquire a stake in the Klöckner-Werke steel plant. It confirmed that talks were taking place, but stressed that they had focused mostly on the future of the German group's joint ventures in Belgium.

Klöckner-Werke's shares on the Frankfurt stock market rose to a 1993 high, up DM7 at DM91.50. Traders said the rise was fuelled by speculation that Bremen may put in a bid for the plant on behalf of an industry consortium.

Mr Jäger said that the Bremen state would rather avoid taking a stake in the steel plant and was seeking private investors.

# UAP plans challenge for top position in insurance

By Alice Rawsthorn in Paris

UNION des Assurances de Paris (UAP) has achieved its aim of becoming a force in the European insurance industry following this week's acquisition of a controlling stake in Colonia, the German insurer, according to Mr Jean Peyrele, chairman.

He said UAP, the largest force in French insurance, was Europe's second-largest insurer and planned to challenge Germany's Allianz for pole position. "UAP is now clearly a force in Europe. We're pleased to have moved into a position where we can prepare for the race to the top."

UAP, a candidate for privatisation by France's centre-right government, has for four years been trying to take over Colonia, the second-biggest German insurer. It sought to negotiate a deal with Suez, the French holding company that owns Victoire, the French insurer with a majority interest in Colonia.

Mr Peyrele, who was anxious to conclude the deal before UAP's privatisation and speculation that he was about to become chairman of Crédit Lyonnais, the French bank, concluded the deal on Tuesday.

The agreement, a complex combination of cash payments and share swaps, is valued at FF8bn-FF10bn (\$1.4bn-\$1.8bn). However, UAP had paid FF1.4bn for a 34 per cent minority stake in Victoire which it has ceded to Suez. Mr Peyrele said the transaction would dilute UAP's earnings per share by 10 per cent in 1994 and 8.7 per cent in 1995.

UAP intends to consolidate its interests. "The focus of the group will change dramatically to internal growth and profitability," said Mr Peyrele. "After all, we've run out of money and we wouldn't want to be imprudent."

UAP still plans to expand its UK interests beyond its existing life insurance business. Mr Peyrele said that he hoped next year to conclude talks with a UK partner.

# Christiania Bank prepares issue

By Karen Fossli in Oslo

NORWAY'S finance ministry yesterday cleared the way for state-owned Christiania Bank, Norway's second-biggest bank, to be partially privatised. The ministry also said it expected Den norske Bank, the biggest bank, to make a public offering of shares.

Earlier this year, the ministry indicated that it would dispose of at least part of its shareholding. However, yesterday it said an issue of new

shares, which would dilute the state's stake, was more likely. "Christiania has now been given the clear signal to prepare a major issue of new shares which can take place either late this year or early next year," the ministry said.

Mr Ole Kristian Udnes, Christiania's chief financial officer, said he welcomed the state's decision to approve a public offering rather than a state sell-off.

"Our feeling is that the market is positive towards a share issue and various market players have expressed interest in Scandinavian bank shares in general," Mr Udnes said.

He added that Christiania hoped to disclose details of the offering on November 4, when the bank's third-quarter result is due to be published, or shortly afterwards.

Domestic banking industry sources expected Christiania's issue to be launched in two steps to test market conditions.

DnB, which is 69 per cent owned by the state, said that it

hoped to disclose details of a possible share issue on October 26, when the bank will publish its third-quarter figures. However, DnB is not expected to launch a share offering until 1994 and it is likely to be smaller than Christiania's.

Christiania Bank and DnB returned to profit in the first half after several years of losses. DnB then said it did not need to call on a Nkr500m (\$85.7m) state guarantee. In Oslo, DnB's A-shares closed Nkr0.20 higher at Nkr18.60.

# ICI adds to explosives division

By Philip Gawith in Johannesburg and Paul Abrahams in London

IMPERIAL Chemical Industries, the UK's biggest chemicals concern, has reinforced its presence in the civil explosives industry by acquiring a 51 per cent stake in AECI Explosives of South Africa.

The deal is an asset swap in which ICI exchanges a 25 per cent stake in AECI, a South African petrochemicals, paints and agricultural products company, for control of AECI's explosives business. ICI retains a 13.3 per cent stake in AECI.

Mr Bob Clarke, chief executive of ICI Explosives, described the deal as "the most important step in ICI Explosives for very many years".

The deal adds a business with sales of £150m-£200m to ICI's explosives division which last year had a turnover of £573m.

AECI's explosives operations, which supply the construction and mining industry, have trading margins just below the 10 per cent achieved by ICI's existing explosives operations.

Mr Rob Margetts, ICI board director, said: "Now sanctions have been dropped we expect to export significant quantities from South Africa."

The deal would help AECI to create strong, self-standing businesses. AECI is South Africa's leading supplier of chemicals and related products. After difficult years in 1991 and 1992, AECI lifted net profits in the first half of 1993 to 50 per cent to R75m (£14.5m).

Mr Sander added that the deal would help AECI to create strong, self-standing businesses. AECI is South Africa's leading supplier of chemicals and related products. After difficult years in 1991 and 1992, AECI lifted net profits in the first half of 1993 to 50 per cent to R75m (£14.5m).

# French utility details plans for investment

By David Buchan in Paris

COMPAGNIE Générale des Eaux, the French industrial holding company, indicated yesterday that some of the proceeds of its planned FF33bn-FF43bn (\$5.35-\$7.14m) rights issue would be devoted to developing cellular phones in Europe and electricity production in the US. These are among the group's fastest-growing activities, and it plans FF33bn investment this year.

Announcing the rights issue on Tuesday night, the company said its aim was to "reinforce its own funds", but a spokeswoman yesterday pointed out that group equity, together with convertible bonds, totalled FF29bn, outweighing long-term debt at the end of last year.

The rights issue brings to FF35bn the amount of new equity that companies have raised, or plan to raise, this year, in addition to the government's programme to sell around FF40bn of state assets this autumn.

This compares with a total of FF50bn equity raised last year. The volume of convertible bond issues has risen from FF3bn in the whole of 1992, to FF12bn so far this year.

Générale des Eaux said it would spend the aims of its rights issue shortly when fixing the terms.

Mr Olivier Fèvre, an analyst with Barings Securities said using the total FF43bn to reduce debt "would be in the short-term interest of shareholders because it would not dilute earnings per share".

# Benetton sells 10% stake in banking arm

By Robert Graham in Rome

THE BENETTON family has agreed to let Banco Ambrosiano Veneto (Ambroveneto) take a 10 per cent stake in 21 Investimenti, their merchant banking arm.

21 Investimenti, owned by the Benettos through their main holding, Edizione Holding, was formed two years ago with a £40bn (\$3.1m) capital. Ambroveneto is expected to pay £6bn for the shareholding, which in turn will prompt a capital increase.

Benetton, Italy's biggest producer of casual clothes, has used 21 Investimenti to invest in high-quality brand names that coincide with the group's sport and green life-style image. The investments include a 50 per cent stake in TWR, the UK sports car company.

Ambroveneto is Italy's largest private bank. It is one of the first instances of an Italian bank taking advantage of new legislation permitting them to invest directly in businesses.

# Stroeher family to sell part of Wella holding

DESCENDANTS of Mr Franz Stroeher, the founder of Wella, the German personal care products manufacturer, will offer a portion of their stake in the company as common shares on German and Swiss stock exchanges, AP-DJ reports from Darmstadt.

The Stroeher family still owns 66.8 per cent of the company's share capital and will offer 20 per cent of their stake - 13.4 per cent of the company - to cover inheritance taxes, Mr Peter Zuehlisdröff, the chairman, said yesterday.

The timing of the issue has not been determined.

Wella will propose the transformation of registered ordinary stock into ordinary bearer shares at an extraordinary shareholders' meeting. Following this change, the shares would be listed in Frankfurt, Berlin, Vienna, Zurich, Geneva and Basle.

Preferred shares, which represent 33.2 per cent of the company's capital, are already traded publicly.

An undetermined portion of the newly available common

shares would be offered to owners of the company's preferred shares but no price has been set for the shares. No capital increase is planned, Mr Zuehlisdröff said.

Wella has previously reported that sales for the first nine months of 1993 were up a sluggish 3.2 per cent over the same period last year.

However, Mr Zuehlisdröff said the company expects full-year sales growth to reach 6 per cent, for a total of DM2.9bn, citing a strong increase in recent months.

A first-time consolidation of brands acquired from Smith-Kline Beecham in June will also boost the full-year figure, he added.

Mr Zuehlisdröff also said he expects profits for the year to grow more quickly than sales. The company said that two-thirds of the increase in the 1993 dividend would reflect tax changes which have reduced corporation tax. Wella paid a dividend of DM9 a share on ordinary stock on 1992 results and DM10 on preference shares.

# Rothschild eyes expansion in Germany

By David Waller in Frankfurt

ROTHSCHILD, the German banking arm of the Rothschild family banking group, is to expand its operations in Germany by providing additional services to private and institutional investors.

The Rothschild empire was founded in Frankfurt in 1792 but the family left Germany in 1901, returning only in 1989 when it opened a joint representative office for its London, Paris and Zurich operations. Since 1989, Rothschild's German business has been concentrated on corporate finance and private client activities.

# Oce declines 26% to Fl 13.9m in third term

By Ronald van der Kroij in Amsterdam

OCE-VAN der Grinten, the Dutch photocopier and office equipment maker, reported a 26 per cent fall in third-quarter net profit. This comes after declines of nearly 50 per cent in each of the first two quarters of 1993.

Net profit fell to Fl 13.9m (\$7.7m) from Fl 18.8m in the third quarter of 1992.

Figures for the nine-months were down 42 per cent at Fl 40.6m.

The company blamed the decline on lower sales, caused mainly by the weakness of

European economies and which extended the first-half trend.

The depreciation of important currencies against the Dutch guilder continued in the third quarter, but at a reduced rate.

Third-quarter sales fell by 6 per cent to Fl 603m. In the first three quarters taken together, sales declined by 7 per cent to Fl 1.85bn.

Oce-van der Grinten said it would pay an unchanged interim dividend of Fl 0.90. However, it said the interim dividend should not be seen as an indication of the level of the final dividend.

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## FINANCIAL HIGHLIGHTS

UNAUDITED AS OF SEPTEMBER 30, 1993

|   | September 30 1993<br>SR '000 | September 30 1992<br>SR '000 |
|---|------------------------------|------------------------------|
| <b>Assets</b>   |                              |                              |
| Cash and Due from Banks   | 7,455,577                    | 8,505,043                    |
| Loans and Advances (net)  | 12,215,903                   | 11,103,980                   |
| Bonds and Securities  | 18,366,957                   | 16,565,592                   |
| Other Assets  | 2,211,497                    | 1,791,168                    |
| <b>Total Assets</b>   | <b>40,249,934</b>            | <b>37,965,783</b>            |
| <b>Liabilities and Shareholders' Funds</b>                      |                              |                              |
| Customer Deposits   | 30,169,942                   | 28,125,218                   |
| Due to Banks  | 5,800,862                    | 5,817,859                    |
| Other Liabilities   | 963,608                      | 939,453                      |
| Shareholders' Funds   | 3,315,522                    | 3,083,253                    |
| <b>Total Liabilities and Shareholders' Funds</b>                | <b>40,249,934</b>            | <b>37,965,783</b>            |
| <b>Contra Accounts</b>  | <b>72,728,193</b>            | <b>54,919,999</b>            |
| <b>Statement of Earnings</b>                                    |                              |                              |
| Operating Revenue   | 1,108,587                    | 1,075,201                    |
| Less: Operating Expenses  | (418,608)                    | (364,472)                    |
| <b>Total Operating Income</b>                                   | <b>689,979</b>               | <b>710,729</b>               |
| Transfer to Reserves Net of Credit Recoveries                   | 593                          | (24,842)                     |
| <b>Net Income for the nine months ended September 30, 1993.</b> | <b>690,572</b>               | <b>685,887</b>               |

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| TUE/THU     | LONDON    | 09:30  | 18:20   |
| SAT/MON     | LONDON    | 10:30  | 17:25   |

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## Yaohan International plans HK\$662m flotation

By Simon Davies  
in Hong Kong

YAHOAN International, holding company of the Hong Kong-based Japanese retail group, yesterday announced it is to raise HK\$662.5m (US\$85.7m) through a flotation on the Hong Kong stock market.

The company has a disappointing track record on earnings from its core retail business, but profits have been boosted by property disposals. Investors are expected to subscribe because of the group's long-term China ambitions, and the impressive connections of its chairman, Mr Kazuo Wada.

Yaohan's board of directors

includes the former chief executive of the Hong Kong Stock Exchange and chairman of the Securities and Futures Commission, in addition to the chairman of Citic Australia and China Resources. This demonstrates the level of business clout Mr Wada has achieved since he moved headquarters to Hong Kong in 1990.

Yaohan International controls three listed companies in Hong Kong, which own local department stores, restaurants and food processing operations, but it will also be the primary vehicle for Mr Wada's push into China.

The company has a 36 per cent stake in a joint-venture department store being constructed in Shanghai. The

store will cost US\$100m to build, and when complete in late 1995 will be the largest store in Asia.

The Chinese projects are all long-term, and the short-term outlook for Yaohan International is less dynamic. In the year to March 1993, property sales accounted for HK\$138m out of operating profit of HK\$284m.

In the current fiscal year, property profits of HK\$170m are already locked in, and represent the bulk of earnings growth in a prospectus forecast of HK\$265m.

Yaohan International is offering 247.2m new shares at HK\$2.68 a share, representing 25 per cent of the enlarged share capital of the company.

## Ciba sales rise 8.3% to SFr5.2bn in third term

By Ian Rodger  
in Zurich

CIBA, the Swiss pharmaceuticals and chemicals group, reported an 8.3 per cent increase in sales in the third quarter to SFr5.2bn (US\$760m).

The company reiterated its forecast of an increase in net income for the full year.

Sales in all three divisions grew in the third quarter, in contrast to the generally flat and lower trends in the first half. Part of the gains came from the appreciation of foreign currencies, especially the US dollar, against the Swiss franc.

The healthcare division, which accounts for nearly 40 per cent of group turnover, reported a 13.9 per cent rise in sales in the quarter, to SFr6.7bn.

Sales in the relatively small diagnostics and vision business were ahead by 44 per cent and 26 per cent respectively.

The core pharmaceutical business lifted sales 8.6 per cent to SFr1.6bn as the effects of the US introduction last year of the Habitrol patch to help people stop smoking waned.

Sales in the agricultural chemical division advanced 10.1 per cent to SFr339m, fulfilling the group's expectations of a stronger second half in the US and in the southern hemisphere.

The industrial businesses - mainly dyes, additives, pigments and polymers - also recovered, with sales up 2 per cent to SFr2.1bn.

For the nine months, group sales were flat at SFr17.1bn.

## Second-half improvement at Engen

By Philip Garwith  
in Johannesburg

AN IMPROVED second-half performance helped Engen, the energy unit of South Africa's Gencor mining group, lift net income by 13 per cent to R490m (US\$39m) in the year to August, from R424m a year ago.

Earnings, which were in line with market expectations, were helped by the higher volumes of crude oil processed at the Engen refinery in Durban following the successful commissioning of a R900m expansion project.

The dividend was increased by 12 per cent to 154 cents per share, against 137.5 cents last time, on earnings of 309 cents per share compared with 275 cents.

The company was reluctant to offer a specific earnings forecast, saying it depended on the economy recovering from recession and political stability.

With the benefits of the refinery upgrade now available for a full year, however, they were optimistic that earnings should improve.

Turnover rose by 17.7 per

cent to R7.7bn, from R6.6bn, due mainly to two government-imposed rises in petrol prices during the year. There was no volume growth in the domestic market.

Continuing benefits from overseas markets re-opening to South Africa in the wake of political reform helped boost export volumes by 70 per cent. Engen now exports to 26 countries, mostly in Africa. Margins on these sales are considerably lower than in the domestic market.

Operating income rose by

47.1 per cent to R578m, but financing income fell to R16m from R140m in 1992 as rights issue cash was spent. As a result, pre-tax income was only 11.4 per cent higher at R594m (R538m).

A R115m programme to convert the livery of petrol stations to Engen from Mobil (Engen was formed on the rump of the disinvesting Mobil in 1990) is nearly complete and has boosted market share, which reached 25.8 per cent in the gasoline market in the second half-year.

Operating income rose by

## Outokumpu unit sale raises \$129m

By Christopher Brown-Humes

OUTOKUMPU, the Finnish mining and metals group, has raised \$129m from the sale of OM Group, its US specialty chemicals unit.

It had been hoping to raise as much as \$170m from the disposal, but this was before poor market conditions forced it to postpone the sale, planned for last April.

OM Group is being bought

by US, European and Asian investors through a public offering. The transaction has been underwritten by a group of US and international investment banks led by Lehman Brothers, Donaldson Lufkin and Jenrette and Goldman Sachs at \$14 a share.

Outokumpu said earlier this year that OM Group was not a core business. The disposal will strengthen its equity-to-assets ratio by 2.5 percentage

points to 23.5 per cent, taking it nearer its 30 per cent target. OM Group's finances have been strengthened by a simultaneous primary issue of shares, which raised \$17m.

The unit, based in Cleveland, is one of the world's leading producers of metal-based specialty chemicals, with manufacturing facilities in the US, Finland and France. Sales in 1992 amounted to \$201m and it has about 300 employees.

## Marubeni to write off Y23bn in loans

By Emiko Terazono

MARUBENI, a leading Japanese trading house, will liquidate part of its securities investment made during the late 1980s, writing off some Y23bn (\$217m) in extraordinary losses.

Many Japanese companies poured money into the stock market during the economic "bubble" of the late 1980s through *zainin*, or specified money trusts. However, most companies suffered heavy losses due to the plunge in Japanese share prices in 1990.

The move comes amid increasing fears that Tokyo share prices will slip again in the next few months. Sumitomo Corporation, leading trading houses, recently wrote off investment losses incurred by financial subsidiaries.

Such affiliates were set up as "profit centres", and to act as a buffer for other subsidiaries, borrowing from banks and raising money on capital markets, and passing on savings to smaller members of the group.

## Weak demand affects Japanese retailers

By Emiko Terazono in Tokyo

TWO Japanese retailers belonging to the Seibu Saito group, a leading retail and consumer services concern, were hit by sluggish consumer confidence due to the weak economy and bad summer weather.

Seiyu, a supermarket chain which owns the Intercontinental Hotel group, saw a 3.3 per cent decline in sales to Y529.3bn (US\$4.9bn) for the first six months to August and a 15.6 per cent drop in operating profits to Y12.4bn.

Cost cutting efforts and a decline in interest payments on borrowings helped the company to post a 0.7 per cent rise in pre-tax profits to Y7.5bn. After-tax profits fell Y19.5 per cent to Y4.3bn.

Mr Katsuhiko Fujiseki, president of Seiyu, said a full recovery in consumer spending was unlikely before the second half of the next business year to February 1995.

For the year to next February, the company expects pre-tax profits to rise 1.3 per cent to Y13bn on a 2.8 per cent fall in sales to Y1bn.

Family Mart, the country's third-largest convenience store operator and a subsidiary of Seiyu, saw a 4.8 per cent fall in pre-tax profits to Y8bn. After-tax profits fell Y3.6 per cent to Y3.9bn.

Operating profits dropped 5.6 per cent to Y7.3bn, the first year-on-year decline, while sales at existing stores fell for the first time by 0.7 per cent.

For the full year to February the company expects pre-tax profits to rise 0.6 per cent to Y17bn on a 4 per cent rise in sales to Y77.5bn.

## NZ insurer in Australian deal

By Nikki Tait  
in Sydney

TOWER Corporation, which claims to be the largest mutual insurance group in New Zealand, is acquiring the Australian operations of the UK's Friends Provident in an attempt to step up its presence in the Australian market.

No price was disclosed for the deal. However, Friends Provident Australia, based in Sydney, has around A\$1bn (US\$661m) in assets and some 100,000 policyholders. Annual premium income is put at

approximately A\$120m to A\$130m.

The deal significantly expands Tower's Australian operations, based in Melbourne. Mr James Boonzaar, Tower's managing director, said the combined Australian businesses would have about 140,000 policyholders, and assets of A\$1.3bn. Tower Corporation, he added, had been seeking "critical mass" in Australia, and the merger should make a "viable Australian company".

Friends Provident is owned by Eureka, the European finan-

cial services group formed by four insurance businesses based in Scandinavia, the Netherlands and the UK. Eureka said yesterday that Friends' Australian arm needed to be larger, and required more local support than Eureka wished to provide.

The Amsterdam-based partnership added that, although the bulk of its operations are based in Europe, there were no plans to dispose of the two North American businesses - a life company based in Vancouver, and a medical insurance operation in Indiana.

## Boral drops Sagasco bid conditions

BORAL, the Australian building products and energy group, yesterday waived some of the technical conditions attached to its A\$760m (US\$502m) takeover bid for Sagasco Holdings, the Adelaide-based gas producer, but made no change to the A\$3.50-a-share offer price, writes Nikki Tait.

The dropping of the conditions gives Boral additional flexibility in the later stages of the bid contest, although the predator has maintained the key 50.1 per cent acceptance condition.

Sagasco has already rejected Boral's bid as inadequate. Much now depends on what the South Australian government decides to do with its remaining 31.8 per cent interest in Sagasco. Boral already owns 19.9 per cent of Sagasco, bought from the state government, and purchase of the remaining interest would be sufficient to give Boral control of its target.

### Shell Forestry rationalises in NZ

SHELL Forestry, a subsidiary of the international oil company, has sold its 40 per cent stake in Balgent Forest Indus-

### NEWS DIGEST

tries to Carter Holt Harvey as part of a rationalisation of its own substantial New Zealand forestry assets, writes Terry Hall in Wellington.

Carter Holt Harvey, which is controlled by a consortium of US-based International Paper and Brierley Investments, announced yesterday that it was buying the half share of Balgent Industries that it did not already control.

Carter Holt Harvey said that it was paying NZ\$105m (US\$65m) for the shares held by Shell and the 10 per cent owned by Todd Forestry, a New Zealand-owned company. Balgent owns 28,369 hectares of forests in South Island and a modern sawmill which produces 140,000 cubic metres of timber a year. The company is upgrading the mill at a cost of NZ\$24m.

### SAB subsidiary in \$20m brewery deal

SOUTH African Breweries said that its Dutch-based subsidiary Indol International had reached agreement in principle with the Tanzanian government to buy 50 per cent of its

Tanzania Breweries, Reuter reports from Johannesburg.

A spokesman for SAB said that the \$20.5m deal hinged on the company satisfying certain regulations in South Africa.

### Sega and Fuji join multimedia forces

SEGA Enterprises and Japan's Fuji Television Network said they would start selling new video game software next year in what they called the first step of broadened co-operation in multimedia, Reuter reports from Tokyo.

The first project is designed to combine Fuji's assets of pictures and sound of Formula One motor racing with Sega's expertise in developing video game software.

### Mars plans to invest \$10m in India

MARS, the New Jersey-based company, plans to invest Rs30m (\$10m) to set up two factories in India to tap into the Rs2bn-a-year market for chocolate and cocoa-based products, AP-JN reports from New Delhi. The company will employ 300 workers and production is to start in 1995.

## Finnish elevator group falls 16% at eight months

By Christopher Brown-Humes  
in Stockholm

KONE, the Finnish lifts and cranes group, yesterday blamed falling European demand for its elevators as well as currency factors for a 16.8 per cent drop in profits after financial items to FM201m (US\$35m) for the first eight months.

Overall, sales were up 20 per cent at FM7.4bn, due to the weaker markka. The rate of growth was slightly lower at Kone Elevators, which accounts for 71 per cent of sales, where turnover grew from FM4.5bn to FM5.5bn.

Lower European demand for new lifts and modernisation, particularly in Finland, France and Italy, has pushed down the real value of the elevator unit's orders by 5 per cent, in spite of growth in eastern Asia.

All of these securities having been sold, this announcement appears as a matter of record only.

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## INTERNATIONAL COMPANIES AND FINANCE

# BellSouth buys 22.5% of cable television operator

By Richard Tomkins  
in New York

BELLSOUTH, one of the US regional telephone companies, yesterday secured a foothold in the cable television business by agreeing a \$250m deal that will give it a 22.5 per cent stake in Prime Management, Texas-based operator of the Prime Cable service.

The deal echoes yesterday's much bigger merger between Bell Atlantic and Tele-Communications Inc by allowing BellSouth to expand beyond its telephone and wireless communication operations into cable services and interactive entertainment.

BellSouth, based in Atlanta, Georgia, has 19m telephone subscribers across nine southern states of the US, while

Prime's cable systems serve more than 600,000 customers in US markets including Houston, Chicago and Las Vegas.

In exchange for its stake in Prime, BellSouth will lend the company \$250m, which Prime will put towards a \$450m recapitalisation of Community Cable Television, a Las Vegas-based cable operator in which Prime has a stake.

Community Cable, with more than 203,000 cable connections, owns Hospitality Network, which provides interactive television services in 70,000 hotel rooms nationwide.

BellSouth's financial backing should enable Prime to accelerate the growth of its cable services, while BellSouth will gain from the opportunities to feed its telephone services through Prime's cable networks in

new geographical markets.

Mr William Reddersen, BellSouth's recently-appointed senior vice-president in charge of broadband strategies, said: "This is another significant step in preparing BellSouth to capitalise on the emerging opportunities in interactive television, consumer entertainment and the convergence of the communications and cable industries."

The deal is not expected to affect BellSouth's reported interest in joining QVC Network in its bid for Paramount Communications.

However, it was unclear yesterday whether there would still be a role for BellSouth following Bell Atlantic's involvement in the bid through its takeover of Tele-Communications Inc, a QVC ally.

## Japanese broker upgrades forecast

By Emiko Terazono  
in Tokyo

DAIWA Securities, one of Japan's big four brokerage houses, yesterday moved against the trend in the domestic market and upgraded its interim earnings forecast.

The firm said that the improved result would be due to higher-than-expected bond trading profits in the wake of lower interest rates.

Daiwa raised its expected pre-tax profit for the first six months to September, to ¥35.3bn (\$333m) from ¥30bn, nearly 20 times the amount earned in the corresponding period last year.

The announcement reflects a difference in investment strategies between Daiwa and other leading brokers. Last month, Nomura Securities, the largest broker, Nikko Securities and Yamachichi Securities, revised downwards their expectations due to weaker-than-expected stock trading commissions on the Tokyo market.

During the six months to September, daily value of turnover on the Tokyo stock exchange was 10 per cent lower than original expectations, and the Nikkei index hovered around 20,000.

Daiwa placed the bulk of its funds into the government bond market, which rallied because of lower interest rates. An increasing number of investors, discouraged by the sluggish stock market, also piled into the market.

Daiwa said commission income was also better than expected.

## Sara Lee buys Finnish concern

SARA LEE, the US food and consumer products group, is to buy Finland's Viking Coffee Company, Reuter reports.

Sara Lee said it expected to finalise the deal, of which no financial details were given, by the end of this year.

Viking Coffee produces roasted coffee in Finland and Sweden. It has annual sales of around \$45m.

## Earnings at Weyerhaeuser fall 38% amid depressed conditions

By Frank McGurty in New York

WEYERHAEUSER, the US forest products group, yesterday said its third-quarter earnings had fallen by 38 per cent, as a sharp decline in paper and pulp prices offset a strong performance by its timber business.

The company, the world's largest private owner of softwood timber, linked its overall performance to depressed conditions in the North American pulp and paper industry. In this segment, profits were \$2.5m, a sharp drop from last year's \$61.2m.

Prices for most paper and pulp products had fallen about 20 per cent from 1992 levels, the company said. In addition, it had curtailed production lev-

els at some mills because of soft market conditions.

Net income for the 13 weeks to September 26 was \$66.6m, or 32 cents a share, compared with \$107.2m, or 53 cents, in the third quarter of 1992, which was a period of robust growth for the company.

Revenues slipped 5 per cent to \$2.25bn, from \$2.35bn a year earlier.

Excluding special factors, however, the decline in earnings was marginal.

The 1993 results included a charge of 10 cents a share to provide for changes in the federal corporate tax rate enacted this summer. Last year's figure, meanwhile, reflected a one-time gain of 8 cents a share following the partial settlement of tax refund dispute.

By contrast, Weyerhaeuser's timberlands and wood products division continued to improve. Operating earnings climbed to \$165.3m, against \$108m last time, as supply shortages lifted prices for logs and lumber. Sales volume for most products also surpassed year-earlier levels.

Weyerhaeuser's property and financial services operations earned \$11.2m in the quarter, compared with \$27.3m last time. The decline in part reflects the sale earlier this year of GNA Corp, a mutual fund business.

Although the results were in line with most analysts' expectations, the announcement was followed by a dip in Weyerhaeuser's shares. By midday, the stock was down 3/4 at \$39.

## Higher taxes hit US paper group

By Karen Zagor in New York

INTERNATIONAL Paper, the US forest products group, posted third-quarter net income of \$48m, or 39 cents a share, including charges of \$28m, or 23 cents, reflecting a higher federal income tax rate. Sales slid to \$3.4bn from \$3.5bn.

Stripping out the tax adjustment, net income was \$76m, or 62 cents, in the quarter. In the same period of 1992, International Paper earned \$98m, or 81 cents.

Mr John Georges, chairman and chief executive, said depressed pricing levels for paper and packaging products in the US and abroad had dampened the cyclical rebound that the company had been expecting.

For the first nine months, net earnings were \$189m, or \$1.53, on sales of \$10.3bn, against income of \$232m, or \$2.17, on sales of \$10.2bn last year.

## Bankers Trust sets up \$12m oil facility

By Antonia Sharpe

BANKERS Trust has structured and arranged a \$12m facility which provides protection against fluctuations in the price of crude oil for Sonangol UEE, Angola's national oil company.

Sonangol has already drawn about 10 per cent of the one-year facility which will finance the installation of a floating production, storage and offloading vessel so that two previously-drilled oil wells can be brought on stream.

Bankers Trust has provided a hedge for about 2m barrels of crude oil. Mr Ted Gilletti, managing director of Energy Merchant Bank, part of Bankers Trust, said the hedging mechanism was necessary because of the size of the facility relative to the projected oil flow rate.

## Boost for home shopping industry

By Martin Dickson  
in New York

THE US television home shopping industry received a boost when two separate cable television groups announced ventures involving CUC International, which offers home shopping to some 30m Americans via the telephone and computer.

Viacom, the cable company bidding for Paramount Communications, said it would be testing a home shopping service, in conjunction with CUC and American Telephone & Telegraph, in the Castro Val-

ley, California, where Viacom and AT&T are due to launch a full-scale test of interactive television services next year.

Time Warner, the second largest US cable operator, said it had agreed with CUC to create an interactive home shopping service in Orlando, Florida, where Time Warner is establishing its first commercial interactive-television service, the Full Service Network.

Viacom, whose bid for Paramount is competing against a higher but hostile offer from QVC - one of the largest television home shopping networks - said the Castro Valley test

would give customers the same broad range of products and services CUC offered to members through telephones and computers.

Time Warner said its service would offer merchandise from CUC's database of 250,000 brand-named products and would allow customers to view and buy items on demand. CUC would use its existing systems to process orders.

Time Warner announced last month that it and Spiegel, a leading specialty fashion retailer and catalogue company, were joining forces to create two new cable channels.

## Travelers hit by asbestos claims

By Patrick Harverson

A RISE in the number of environmental damage and asbestos-related claims has forced Travelers, the US insurer, to add \$325m to its property-casualty reserves and take an after-tax charge of \$211m in its third quarter.

The addition to reserves and charge mean Travelers will record a net loss for the July-September reporting period when it releases its results next week.

The company, however, said

its operating earnings will show an improvement over the year.

Primerica Corporation, the financial services group which owns a 27 per cent stake in Travelers and which agreed last month to a full merger with the insurer, said yesterday the charge would have no impact on its third quarter or full-year results.

Travelers said it has bolstered its asbestos and environmental litigation reserves, which now stand at \$670m, for three reasons: an increase in

the number of industry workers alleging they have been exposed to asbestos; a rise in environmental claims made by smaller companies; and the naming of Travelers as a defendant in insurance coverage cases brought by other insurers against their policyholders and the policyholders' other carriers.

Investors took yesterday's announcement in their stride, and by midday Travelers' share price was unchanged at \$38 on the New York Stock Exchange.

## Record profit at First Chicago

By Patrick Harverson  
in New York

FIRST Chicago reported a record profit of \$34m for the third quarter yesterday as the company rebounded strongly from the \$37m loss incurred in the same period last year.

The mid-western banking group, the 13th-largest in the US, fell deep into the red in 1992 after it took a \$625m special provision to cover credit losses related to the disposal of problem property assets.

With the bulk of the asset

disposal programme over, First Chicago attributed its latest improvement to strong contributions from all its main business lines, particularly proprietary trading and venture capital.

The bank reported earnings of \$117m from its venture capital business, from virtually nothing in the same quarter a year ago.

Earnings from the trading of primarily interest rate options, swaps and foreign exchange totalled \$7m, the second best quarterly trading performance

in the bank's history. Non-interest income was also boosted by continued growth in First Chicago's credit card business, where fee revenues rose to \$186.7m, up from \$138.6m a year ago, as total managed receivables grew by 23 per cent to \$9.6bn.

Net interest income was \$341m in the quarter, up from \$294m in the same period of 1992 as the bank's loan assets shrank 10 per cent to \$21.8bn.

The bank's shares rose 3/4 to \$50 1/4 on the New York Stock Exchange in early trading.

## Cash call from Austrian rail unit

By Ian Rodger in Zurich

VOEST Alpine Eisenbahnsysteme (VAE), the partially privatised Austrian maker of points (switches) and other specialised railway equipment, is raising about \$300m (\$27m) in a one-for-six rights issue.

The funds would be used to help finance the group's expansion plans at factories in the US, Canada and probably China. Its capital budget for this year is \$190m and for the 1994-96 period \$540m.

The group's controlling shareholder, the state industrial holding company Aus-

trian Industries (AI), is not taking up its rights and is selling 245,000 of its existing shares to reduce its stake from 61 per cent to a blocking 26 per cent.

VAE, which has been expanding rapidly in world markets for high-speed and heavy-duty railway installations, was floated last November on the Vienna Bourse when AI sold 49 per cent of its holding at \$39.15 a share.

The price of the rights shares will be fixed on November 18 and the group said it would be "close to the market price", which was \$34.45 yesterday.

The new \$300m nominal shares will qualify for the divi-

dend for 1993, which the company has agreed to raise to 32 per cent from 18 per cent.

The rights issue is being underwritten and the placement managed by Bank Austria Investment Bank and S.G. Warburg.

VAE said it expected its net income to rise 6.3 per cent to \$394m this year.

● Austria Mikro-Systeme (AMS), a specialised semiconductor maker which was floated earlier this year, reported pre-tax profit of \$200m in the first half, 43 per cent higher than in the same period of 1992.

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## COMPANY NEWS: UK

# Forte to float airport services side next year

By Michael Skapinker, Leisure Industries Correspondent

FORTE, the hotel and restaurant group, said yesterday that it intended to float its airport services division on the Stock Exchange early next year.

Forte had signalled the move last year when it failed to sell the business, along with its Gardner Merchant contract catering division, to the Compass group. Gardner Merchant was sold to its management and a venture capital consortium at the end of last year.

Some analysts had expected the division's flotation to take place in a few years' time. The market, however, quickly digested the news of a quick flotation and Forte's shares closed down 5p at 222 1/2p.

The group said the exact timing of the flotation would depend on stock market conditions next year. The division is expected to be valued at between £200m and £250m. Mr

Rocco Forte, chairman, said he would be happy with a price above £210m and would not want the division to be valued at anything below that.

Forte will retain a 25 per cent stake which Mr Forte described as a medium-term investment.

The division, which employs 6,000 people worldwide, has two sectors: flight catering and airport retailing.

The catering arm provides 45m in-flight meals a year to 150 airlines. The airport retailing arm is the largest in the UK.

The division made trading profits of £17m on turnover of £404m in the year to January 31 1993. In the first half of the current year, trading profits were £12m on turnover of £208m.

Mr Bruce Jones, an analyst with Smith New Court, said that although the planned flotation had been announced some time ago, he still ques-

tioned its wisdom. The airline meals business fitted in well with Forte's other catering activities, which include the Welcome Break, Happy Eater and Little Chef roadside restaurant chains.

Mr Forte said, however, that the provision of in-flight meals was more of a manufacturing than a catering business.

Analysis said the sale would reduce pressure on Forte to accept a low bid for its Harvester restaurant chain, which is up for sale. They said the flotation would also reduce the likelihood of a rights issue. Mr Forte said he did not believe the group needed a rights issue and none was planned.

He said some of the flotation proceeds would be used to reduce debt, which stood at £1.3bn at the end of July.

The remainder would be used to expand the remaining hotel and restaurant businesses. Mr Forte said no large acquisition was in prospect.

## Commercial vehicles boost Chas Sidney

By Paul Taylor

STRONG GROWTH in commercial vehicle sales helped Charles Sidney, the Yorkshire-based Mercedes-Benz commercial vehicle and passenger car dealer show a near 40 per cent increase in operating profits for the year to August 31.

Charles Sidney, part of Albert Fisher, the food processing and distribution group, is coming to the market via a placing with institutional investors and public offer early next month.

The pathfinder prospectus for the proposed flotation was issued yesterday and revealed full year operating profits of £2.44m, up from £1.76m the previous year, on turnover of £24.4m (£21.7m).

The group, which ranks as the largest Mercedes-Benz commercial dealer in the UK and the sixth largest car dealer, reported pre-tax profits of £2.46m (£1.7m).

Commercial vehicles, which have underpinned the group's performance in recent years, contributed £1.75m (£1.25m) of last year's operating profits and £35.1m (£21.7m) of total turnover with sales of new vehicles jumping from 648 to 993.

The strong performance of the commercial vehicles segment offset the weakness of new car sales which reflected the delayed recovery of the luxury car sector and customers waiting for Mercedes models which were launched at the start of October.

Mr Raymond Edwards, Albert Fisher's director responsible for the European food processing division including Charles Sidney, who will leave the group to become chairman, said sales of luxury cars have begun to pick up since the end of August.

The final prospectus, together with details of the offer, is due to be published on October 27 and dealings in the new shares are expected to begin on November 10.

## Analysts welcome disposal of US recycling business Attwoods moves back to basics

By Richard Gourlay

ATTWOODS' sale of its loss-making Mindis recycling business in the US was widely welcomed yesterday as the necessary, if painful, removal of a nasty thorn.

Mindis has proved, with hindsight, an extremely costly foray into recycling - a business driven more by politicians than economics and, consequently, one that has struggled to take off. It was also a business exposed to wild swings - recently downwards - in base metal prices.

However, the announcement of the £40m (£22m) sale and the £91m provision to cover the resulting loss was accompanied by a set of results for the year to end-July from which it was difficult to isolate the performance of the ongoing business.

The headline figures were a preliminary pre-tax loss of £82.2m compared with a profit of £26.1m, on sales up 20 per cent at £410m, and losses per share of 25.25p (earnings 6.84p).

Looking forward, Attwoods focused on pre-tax profits on continuing business, excluding Mindis, where the pre-tax fig-

ure rose from £27.3m to £33.1m. On this basis earnings per share rose from 7.98p to 8.96p.

However, the picture is more complicated. Attwoods profits included a £5.4m exceptional profit from a well timed D-Mark currency hedge which will continue to generate cash on a monthly basis while the D-Mark remains at current levels. There was also a receipt of £2.9m from an insurance claim.

The interest line was also affected by changes in the accounting rules that reclassified preference shares as debt for presentation purposes, even though Attwoods' banks consider them to be equity instruments.

Interest on these shares now appears above the line. But the main change to interest is a £2.4m increase as a result of translation of interest on foreign denominated debt.

There is also a £2.0m provision covering a US litigation, which under the FRS 3 standard now appears above the line as an exceptional item.

Regarding the £91m provision, only £61.2m hits the balance sheet. The balance of £29.8m is goodwill on acquisition



Ken Foreman: "Mindis has taken a lot of our time"

has taken a lot of our time," he said. "The sale will allow us to focus on the growth areas and getting better returns from the existing business."

However, the market may need some time to digest Attwoods' figures and the implications of the replacement of Mr Donald Jackson at the head of Laidlaw, the Canadian company that controls 38 per cent of Attwoods.

Analysts yesterday welcomed the removal of the unpredictable Mindis business and a return to the comparative certainty of long term waste collection contracts.

A strong start to the year in the UK and the US is only partly offset by the poor performance in Germany, where new contracts are still making higher margins than in the UK.

Analysts said that Attwoods could therefore make pre-tax profits of about £36.5m this year, including profits from the foreign exchange hedge, giving earnings of 9.2p.

Finding new contracts outside the US, the UK and Europe is not, however, going to happen overnight so growth from new markets may be some time off.

## Alders pathfinder indicates strong advance to £23m

By Maggie Urry

OPERATING PROFITS at Alders, the department store and duty-free retailer, are estimated to have reached £23m in the year to September 30.

That compares with the £15.3m before exceptional items achieved last time.

However, the latest financial year covered 53 weeks and excluding the extra period the profit would have been £21.4m. The figure was revealed in the pathfinder prospectus for the group's flotation next month.

The prospectus says there are signs of recovery in the UK market, while the duty free side was exceeding expectations apart from the San Francisco store. Alders is suing the city and county of San Francisco over the poor performance of the outlet there.

The document says the group's trading prospects are "significantly better than at any time since the buy-out".

The group was formed by a management buy-out from Hanson in 1989.

The float is expected to value the company at close to £200m,

and it aims to raise about \$85m for the company through a placing and public offer.

Existing shareholders have yet to decide if they will sell shares in the issue. Hanson holds 5 per cent of the equity, with 94 per cent held by institutions who backed the mbo, and supported a £10m rights issue in 1991.

Management holds 1 per cent at present. Share options will be granted which could give 130 managers about 5 per cent of the enlarged share capital, depending on the price at which the shares are floated. Within that Mr Harvey Lipsith, chief executive, will hold less than 1 per cent of the total, and the options cannot be exercised for a year.

Mr Lipsith said Alders was a "well established and resilient business" which, despite heavy debts from its mbo, had invested £55m in the business in the last four years and repaid £30m of debt.

He said the group's two activities were each large operators in fragmented sectors. Sales from the department stores in the year just ended

were 10 per cent higher at an estimated £286m, and operating profits were up 20 per cent to £12m.

Mr Lipsith said growth would come from geographic expansion, especially the development of the six-strong chain of "at Home with Alders" household stores, which could reach 50 in 10 years, and from economic recovery.

The duty-free retail business had 40 per cent of the £10bn worldwide market, and operated on four continents. Sales were estimated at £398m, up 21 per cent, in the latest year, with profits nearly doubled at £13m (£6.7m) - partly a bounce back from the Gulf war.

The 1993 figures will bear exceptional costs of £14m, including a £10.5m write-down of property values and the £3m cost of gaining a listing. However, exceptional credits will have totalled £5.1m.

Pricing will be announced on October 27 and dealings are due to start on November 10. The sponsor to the issue is J Henry Schroder Wagg and the broker James Capel.

See Observer

## Starmin facing legal battle

By Catherine Milton

STARMIN, the troubled quarry products group now chaired by Lord Parkinson, the former Cabinet minister, was yesterday facing a legal battle with a former director who resigned a month before the company said pre-tax losses were millions of pounds deeper than previously published.

Mr Osman Abdullah, who controlled the company from 1989 with his brother Raschid, is believed to be suing the company over the termination of his service contract following his resignation in July.

Mr Raschid Abdullah, who

also resigned as an executive in July, was last month reappointed as a non-executive director and speaks for about 30 per cent of the equity. He declined to say whether he now planned to take action against the company and said that his brother was on holiday.

The resignations by the brothers, who first gained a public profile for their work at the Evered aggregates company, coincided with Starmin's announcement of a review of accounting procedures which led to the company rescinding its dividend and announcing 1992 pre-tax losses had been

understated by £3.8m, deepening them to £11.9m.

The review of accounting policies focused on profits booked on asset swaps. Starmin said at the time that there was no suggestion of fraud.

No one at Starmin was prepared to comment. However, note 29 of the company's 1992 Report and Accounts flags the possibility of claims and the board's intention to resist them. "The company will strenuously resist any such claims and the board considers that adequate provision has been made in the accounts at 31 December 1992 for any such liability," the note says.

## Acquisitions behind 49% rise at Seton Healthcare

By Andrew Bolger

ACQUISITIONS helped Seton Healthcare, the medical products and sports equipment group, increase pre-tax profits by 49 per cent to £3.18m in the six months to August 31.

The Oldham-based group, which came to the market in 1990, increased sales by 25 per cent to £22.2m. Underlying sales growth of UK healthcare products was 9 per cent, but the group said this was partly depressed by a policy of ending discounts and the second half was likely to show double-digit growth.

Mr Ian Cater, chief executive, said: "September was the best month we've ever had."

The healthcare division lifted sales by 30 per cent to £19.7m, mainly because of acquisitions. Including these, sales to the UK pharmacy and community sector advanced by 64 per cent, compared with increases of 5 per cent to UK hospitals and 7 per cent in exports. Operating profits rose from £2.14m to £2.87m.

The group made considerable progress in the integration of Cupal, the Blackburn-based manufacturer of over-the-counter medicines, acquired last December for £3.2m. The workforce had been reduced from 150 to 85 and the sales forces had been merged to provide a team of 23, calling regularly on more than 7,000 independent retail pharmacies and multiple chains.

Mr Cater said Cupanol, the paracetamol-based children's medicine for pain and fever relief, was selling well and would be heavily promoted in the autumn. The group was also

developing new wound and bandaging products.

The sports and leisure division saw flat sales of £2.55m, and operating profits slightly up at £348,000. Although conditions on the high street were difficult, the group said it had recently launched a sports care range and would benefit from any improvement in trading.

Gearing at the half-year was down from 80 to 21 per cent, following a £13.1m rights issue in November. Mr Cater said the group wanted to continue growing by acquisition in its core areas.

Earnings per share rose by 22 per cent to 7.2p (5.9p). The interim dividend is 1.9p (1.7p).

### COMMENT

Seton quoted Mrs Virginia Bottomley, the health secretary, to the effect that "self-medication is an idea whose time has come". With the wind blowing so strongly from that quarter, Seton's focus on OTC medicines seems timely, and the group has built an impressive position in a market which is forecast to increase by 50 per cent by 2000. The group has grown its previous acquisitions well and the integration of Cupal suggests it also enjoys benefits of scale on manufacturing and distribution. Forecast full-year profits of just over £5m put the shares, up 9p yesterday to 310p, on a prospective multiple of 17. That premium rating is justified by the group's impressive track record since flotation at 130p per share, although any further advance will be limited by its need to fund significant acquisitions with more paper.

## WSP to merge with AB Consulting

By Peter Pearce

WSP HOLDINGS and AB Consulting, two consulting engineering companies, are to merge to form an enlarged group worth about £9.8m.

The renamed WSP Group will have a combined turnover of more than £20m. Mr Malcolm Paul, finance director on the new board, said that some 80 per cent of its business would come from buildings-oriented consulting and the balance from science and environmental services, the non-buildings side which the combined group would be keen to expand.

The merger is to be effected through the recommended offer by WSP for all the issued share capital of ABC, on the basis of six new WSP shares for every five ABC shares. This values ABC at about £5.3m.

The WSP board, advised by Rea Brothers, is unanimously recommending its shareholders to approve the merger and the ABC board, advised by Albert E Sharp, unanimously recommends acceptance. Both have

irrevocably undertaken to do so in respect of their own shareholdings. In ABC's case this represents about 11.2 per cent of the equity.

Mr Paul said that the combined group would be in "the top one or two consulting engineers in building structures", but that it would not be big on the civil engineering side. However, the new board "envisaged moves" in that direction.

He said WSP felt the industry was "right at the bottom of the recession" and the merger "was sensible in view of the current market place".

The merger would result in a substantial and immediate reduction in overheads. No technical or engineering jobs would be lost, but between 10 and 15 administrative posts would be closed and the group's buying powers would increase.

In 1992 WSP made pre-tax profits of £560,000 on turnover of £10m. For the year to April 30, ABC reported pre-tax losses of £1.15m on turnover of £11m.

### DIVIDENDS ANNOUNCED

|                  | Current payment | Date of payment | Corresponding dividend | Total for year | Total last year |
|------------------|-----------------|-----------------|------------------------|----------------|-----------------|
| Aberforth Split  | 2 1/2           | Dec 3           | 2                      | -              | 8.4             |
| Anglo-Eastern    | 0.5             | Nov 19          | 0.375                  | -              | 1.375           |
| Attwoods         | 3.25            | Feb 1           | 3.25                   | 5              | 5               |
| Brown (N)        | 2.25            | Jan 6           | 1.95                   | -              | 7               |
| Delyn            | 0.5             | Nov 28          | 0.5                    | -              | 1.57            |
| Denshron Int     | 0.5             | Dec 20          | 0.4                    | -              | 1.4             |
| Seton Healthcare | 1.9p            | Jan 31          | 1.7                    | -              | 5.8             |

Dividends shown pence per share net except where otherwise stated. †On increased capital. \*First interim.

### PUBLIC WORKS LOAN BOARD RATES

| Term             | Quota loans |     |     |
|------------------|-------------|-----|-----|
|                  | 5p          | 10p | 15p |
| Over 1 up to 2   | 5%          | 5%  | 5%  |
| Over 2 up to 3   | 6%          | 6%  | 6%  |
| Over 3 up to 4   | 6%          | 6%  | 6%  |
| Over 4 up to 5   | 6%          | 6%  | 6%  |
| Over 5 up to 6   | 6%          | 6%  | 6%  |
| Over 6 up to 7   | 6%          | 6%  | 7%  |
| Over 7 up to 8   | 6%          | 6%  | 7%  |
| Over 8 up to 9   | 6%          | 6%  | 7%  |
| Over 9 up to 10  | 6%          | 6%  | 7%  |
| Over 10 up to 15 | 7%          | 7%  | 7%  |
| Over 15 up to 25 | 7%          | 7%  | 7%  |
| Over 25          | 7%          | 7%  | 7%  |

\*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher than the rates shown. †Equal instalments of principal. ‡ Payment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

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British Coal Corporation,  
Licensing of Closed Collieries,  
Eastwood Hall, Eastwood, Notts  
NG16 3EB. Fax No: 0773 532709

or by telephone on the following number:

0773 532710

and subsequently confirmed in writing.

British Coal reserves the right not to consider expressions of interest received after November 5, 1993. Parties who have

expressed an interest in making an offer will be provided with a Preliminary Information Pack containing outline information on the colliery, an application form, a letter of undertaking and the terms of a £10,000 security deposit/bond, together with details of the licensing process and timetable.

Detailed information and draft tender documentation will subsequently be provided to any party which satisfies the requirements specified in the Preliminary Information Pack, which include entering into the letter of undertaking and the provision of the security deposit/bond.

The receipt of an offer will not create any obligation or commitment on the part of British Coal to enter into any negotiations or to grant a licence.

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As stated in the June and September 1993 quarterly reports, negotiations on the company's finance plan are in progress. Those negotiations, ranging from a possible rights offer to a continuation of financial support, have reached an advanced stage.

In the event of the company proceeding with a rights offer the authorised ordinary share capital will need to be increased. Accordingly, a notice convening a general meeting of shareholders for, inter alia, this purpose will be issued on Monday, 18 October 1993.

Shareholders are therefore advised to exercise caution in dealing in the shares of the company.  
A further announcement will be made as soon as possible to notify shareholders of any resolution reached in respect of the above negotiations.  
Johannesburg  
14 October 1993

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This advertisement, which is issued by Alders Limited, has been approved by J. Henry Schroder Wagg & Co. Limited (a member of The Securities and Futures Authority Limited) for the purposes of section 77 of the Financial Services Act 1986.

Handwritten signature: J. Henry Schroder Wagg & Co. Limited



# An evolutionary step into new frontiers

Christopher Price on the latest batch of warrants aimed at attracting a new breed of investor

**T**HE LAUNCH of two warrants in the past week aimed at the UK equity market mark an inventive step by stockbrokers to encourage investors into areas in which they might otherwise be reluctant to tread.

SG Warburg yesterday issued a multi-media warrant, which gives holders the option to buy the underlying media shares at a future date, aimed at investors wanting exposure to the new frontiers of technology.

Last week, BZW launched a warrant on a basket of food retail shares. It is also looking at several other underperforming areas of the UK equity market for similar launches, which could include sectors such as pharmaceuticals and food manufacturing.

However, the rarity of sector warrants and other similar derivative products in UK equities is testimony to the cool reception afforded by investors in the past.

Derivatives specialists and fund managers will be watching the progress of this latest product closely.

The BZW warrant acts as a "call" option, which attempts to anticipate a rise in the share prices on a basket of food retail stocks. Investors buy the warrant at a price struck by the issuer.

They can exercise their

| BZW FOOD SECTOR WARRANTS* | %    |
|---------------------------|------|
| J Sainsbury               | 40.0 |
| Tesco                     | 21.0 |
| Argyll                    | 17.5 |
| Aldi                      | 8.5  |
| Kwik Save                 | 5.5  |
| Wm Morrison               | 4.0  |
| Asda                      | 3.0  |

\*Approximate weightings of stock

| WARBURG'S EUROPEAN MULTI-MEDIA SECTOR WARRANTS* | %    |
|---|------|
| Thom EM (UK)                                    | 28.9 |
| Pearson (UK)                                    | 24.8 |
| Göteborgs och East (Fr)                         | 15.7 |
| Polygram (Neth)                                 | 13.8 |
| TF1 (Fr)  | 9.1  |
| VNU (Neth)                                      | 7.7  |

\*Approximate weightings of stock

option to buy the underlying shares from the issuer at the price on the day of the warrant's purchase. This can be done at any time over the period of the warrant.

Each of the warrants cost £2.30 on the October 4 launch day for shares worth £18.30 in the seven leading supermarket groups, which are weighted by market capitalisation.

The warrants, which had an underlying stock value at issue of about £100m, are exercisable over the next 18 months.

Should the basket price rise 20 per cent, for example, over the full life of the warrant, it would reach £22.56. The £2.75 rise in the value of the shares would equal the approximate cost of the warrant at expiry. This sum less the £2.30 original cost would give a profit on the warrant of some 63 per cent. Investors are likely to hold the warrant for a highly geared

return, with the option to buy into the underlying stocks if the outlook for the sector holds up.

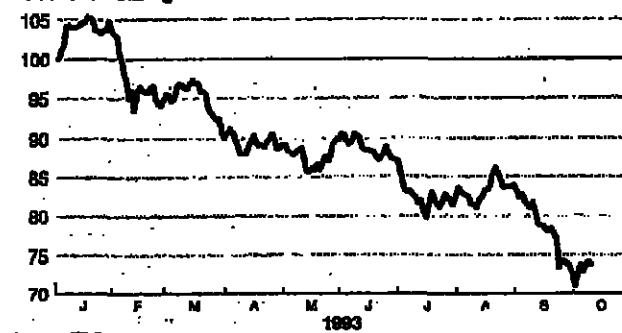
Investors can also trade the warrant, the market being made by the issuer with the price moving relative to the underlying stock prices. Yesterday, for example, the food retail warrant had a mid-price of £2.37 with a basket price of £18.32.

For the issuer, profiting from the exercise will require effective "dynamic" hedging. Although neither BZW or SG Warburg discuss their risk management techniques, typically a warrant issuer will carry some 60 per cent of the underlying stock - the hedge ratio - of the number of warrants issued.

The broker will also make continuous use of the options market as part of its hedging operations on the underlying stock.

## Food retailers underperform the market

FT-A Food Retailing Index relative to the FT-A All-Share Index



Source: FT Graphics

Getting the hedge ratios right will determine the success of the warrant. The higher the sector rises, the bigger the increase in the ratio to compensate. Problems can arise with a sudden and significant movement in the sector which would leave the issuer exposed to taking a hit on the underlying stock. A warrant issued on the water stocks prior to the general election last year was upset by a one-day surge of 20 per cent in the sector, leaving the US issuer exposed and some investors out of profit.

Mr Lenny Barsbank, director of derivatives at Smith New Court, says that market volatility is the biggest threat to a warrant's success. But as important is institutional investor wariness in using

derivatives. "If the demand from customers is there, we are always ready to create the product to suit their needs," he says. "But in general, the response to new product launches in the UK market has been patchy."

Mr Gary Wolens, managing director European equity sales at Salomon Brothers, agrees. "Although there is a steady acceptance in the willingness to use derivatives in the UK, it will be an evolutionary not revolutionary development."

Mr Jim McAfferty, a former fund manager at NatWest Investment Bank, and now at Hoare Govett, says: "The standard view among institutions is that it is difficult to get approval from trustees for the extra risk of taking out warrants or options."

BZW hopes to get round investor reluctance through more aggressive marketing and keener pricing. "There's no point in issuing a warrant that will not sell," says Mr David Roden, the broker's head of derivatives. "We place a high premium on our corporate relationships, so selling them a good product at a reasonable price is very important."

Mr Roden says that the new warrant "offers a different risk profile" for investors who are interested in exposure to the recovery potential of a sector without the full financial commitment. The launch was designed to coincide with BZW's research team turning more positive on the food retail sector, which has underperformed the rest of the stock market by 30 per cent in the past six months.

Mr Mark Bellby, European media analyst at Warburg, said: "We are trying to introduce an investment vehicle which transcends sector and country boundaries to enable investors to access new industry trends."

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New Issue  
October 12, 1993

## Deutsche Centralbodenkredit-AG



DM 100,000,000  
6 1/2% Bonds of 1993/1995  
with the option to repay in US-Dollar

Issue Price: 100.80%  
Interest Rate: 6 1/2% p.a., payable annually in arrears on October 13, 1994 and 1995  
Repayment: on October 13, 1995 at the option of the Borrower  
- by payment of the nominal amount in Deutsche Mark or  
- by payment of US-Dollar 6,538 for nominal DM 10,000

The option of the Borrower to redeem the Bonds by payment of US-Dollars expires, if during the period from October 12, 1993 to and including September 22, 1996 the official mid-price of the US-Dollar/DM exchange rate as quoted and published by the Frankfurt foreign currency exchange equals or exceeds DM 1.72 for each US-Dollar for two consecutive trading days.

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## COMPANY NEWS: UK AND IRELAND

## Differing visions that divide a family

Tim Coone on why an injunction has been granted to the ousted chairman of Dunnes

A SIX-MONTH boardroom struggle over the control of Dunnes Stores, the largest supermarket and retail chain in the Irish Republic, intensified this week following a temporary High Court injunction being granted to Mr Ben Dunne, the ousted chief executive and chairman, against his other partners in the family-run company.

Control of the family empire, one of the largest in Ireland and estimated to be worth some £570m (£870m), has for many Irish people taken on the semblance of a real-life soap opera, complete with family scandal and public disgrace.

Mr Dunne's legal action followed the dismissal last Friday of two senior managers, including Mr Michael Irwin, the chief accountant, and the resignation of four other senior managers. The injunction restrains Dunnes from making any further dismissals of senior management or from making any investments involving sums exceeding £500,000 without approval of the full board.

Mr Dunne was ousted as

chairman and chief executive of the group in February after a boardroom coup by three siblings, who with him comprise the board of directors.

No reasons were given for his removal, but it occurred several months after Mr Dunne resumed his duties following a conviction in a Florida court last year on a charge of cocaine possession. He paid a \$5,000 (£3,000) fine, was ordered to attend a drug addiction clinic in London, and has been barred from entering the US.

The incident caused deep embarrassment to his family, but was the opportunity his three sibling-directors had been looking for to resolve a simmering dispute over the future direction of the chain.

Mr Dunne's retailing philosophy followed that of his father, who founded the company 50 years ago, to provide quality products but at prices which made them available to a mass market and working class pockets.

The group has engaged regularly in price wars with its competitors and is renowned

for negotiating tough terms with suppliers. Its retail margins are very tight, but an important source of its profits is thought to be derived through supplier credit. This allows the supermarket to accumulate large sums of cash which are then invested in the short-term money market.

As a private unlimited company, Dunnes is not required to disclose financial details. It is believed, however, to generate profits of about £50m on turnover of about £900m. It has 75 supermarket and drapery outlets in Ireland, with 6,000 employees. The company also has 23 stores in Northern Ireland and a further 5 in northern Britain.

Mr Dunne fell out with his elder sister, Mrs Margaret McMahon, who reported that the group to go more up-market and who won the backing of two of the other directors, Mr Frank Dunne and Ms Theresa Dunne. Executive control is exercised jointly by Margaret and Frank.

Mr Ben Dunne's autocratic style of management apparently helped alienate him from his siblings, as did his wish to keep the group a private concern rather than seek an eventual flotation.

The one sister who supported him, Mrs Elizabeth McMahon, died of a heart attack in July. A fourth sister is not involved with the family business.

Although ousted from any executive position, Mr Dunne as a director has maintained contact with senior managers to obtain financial information on the group.

In an affidavit to the High Court this week, he claimed that group profits had slipped by £11m. Market share had declined, and that the group was committed to a £30m capital expenditure programme which he described as "questionable and foolhardy" and which had not received approval by the full board.

Mr Irwin, the ousted chief accountant, told the High Court this week, that he

believed his dismissal was due to his unwillingness to become involved in the family feud which, he said, was aimed at excluding Mr Ben Dunne.

In March Mr Dunne took over Dunlee, a quoted property company, which he subsequently said he wishes to see develop into a fruit and vegetable distribution business.

It is thought that he now wishes to cash in his shares, believed to represent a Dunnes stake of 20 per cent and worth about £140m, to develop the Dunlee business, but which his fellow directors in Dunnes fear he may use to set up a rival supermarket chain.

The complex shareholding arrangement in Dunnes, established as a trust by its founder, makes it extremely difficult for any director to dispose of shares without the approval of the other directors.

Mr Dunne has said publicly that he is unable to proceed with his plans for Dunlee because of the ongoing board disputes at Dunnes.

## Anglo-Eastern more than doubled

By David Blackwell

INCREASED palm oil production helped Anglo-Eastern Plantations to more than double pre-tax profits from £530,000 to £1.2m for the first half of 1993.

Palm oil production from the group's 6,500 hectare Tasik estate in northern Sumatra rose from 32,994 tonnes to 45,718 tonnes. Target production for 1993 is 130,000 tonnes of palm oil.

Outside processing carried out by the dedicated crushing mill, opened in 1991, increased from 8,900 tonnes to more than 28,000 tonnes.

Mr Rollo Barnes, chief executive, said the Tasik estate was coming to maturity. At the same time a shortage of crushing capacity in the area had raised the throughput at the group's mill.

The average palm oil price obtained at Rotterdam in the half was \$375 a tonne, although the price had since fallen to about \$340 a tonne.

Production in the first three months of the second half was well up on last year and if this trend continued, the group said results for the year should be very satisfactory.

Turnover was ahead 54 per cent from £2.26m to £3.5m. Earnings per share rose from 1.4p to 3p, and the interim dividend is up from 0.375p to 0.5p.

The group said no provision had been made for expenses relating to Chillington Corporation's planned sale of most of its 50 per cent stake in Anglo-Eastern to Genton International of Hong Kong. It estimates its expenses at between £120,000 and £160,000.

Shareholders in Chillington, which also has interests in property and engineering, vote on the sale early next month. If it is approved, Genton will make a full offer for the rest of Anglo-Eastern at 65p a share.

Yesterday the shares were unchanged at 74p.

## N Brown ahead 21% following growth in sales

By Paul Taylor

LOWER INTEREST costs and a healthy sales gain helped N Brown, the Manchester-based direct mail order group which specialises in clothing for older women, report a 21 per cent increase in first half profits.

The pre-tax line increased to £9.02m (£7.44m) in the 36 weeks to August 23 on turnover ahead 8.3 per cent to £86.2m (£78.6m). Operating profits increased to £10.3m (£9.4m).

Interest costs fell by £647,000 to £1.16m with £400,000 of the decline attributable to lower rates and the balance reflecting an improved stock turn.

This also helped reduce gearing, which fell to 33 per cent from 49 per cent a year earlier. Earnings per share increased from 6.54p to 8.29p and the interim dividend is raised from 1.55p to 2.25p.

Turnover in the core home shopping division increased by 8.6 per cent and operating profits expanded 8.1 per cent to £10.4m.

Mr Jim Martin, chief executive, said the increase in turnover mainly reflected customers ordering more items,

and ordering more often. The group's established catalogues - J D Williams, Ambrose Wilson, Oxendales and the slightly more up-market Heather Valley - continued to grow and still account for the bulk of turnover and operating profits.

These catalogues all cater for more mature customers and offer a much wider range of sizes and fittings than would be found in the High Street.

Fashion World and Candie, the newer titles which were launched in 1991 and are designed for slightly younger customers, continued to increase their share of turnover and profit. They now account for 9 per cent of turnover.

The group's small property and financial division made an operating profit of £48,000, against a comparable loss of £33,000, and a £240,000 deficit in last year's second half.

Sir David Alliance, chairman, said all the autumn/winter catalogues had started well, with encouraging gains in average order values and some early indications that new customer recruitment is stronger than in the past few seasons.

## US and Japanese shortfalls leave Densitron at £0.25m

By Gary Evans

SHARES in Densitron International fell 5p to 32p yesterday after the electronic components manufacturer reported pre-tax profits down from £370,000 to £251,000 in the first half of 1993.

Mr Cliff Hardcastle, chairman, said all parts of the company were trading profitably, although there were reduced profits in the US and Japan.

The Japanese situation, in particular, was expected to improve rapidly in the second half. Orders and sales were already showing improvement which, if continued, would help towards a satisfactory outcome for the full year, he added.

An improved second half - similar to last year - was expected, but the final outcome was dependent upon relatively large contracts deliverable in the last quarter.

Mr Hardcastle pointed out that currency changes had made a significant impact on the reported figures, with the result that the indi-

cated increases in overhead costs and sales were overstated.

First-half turnover rose from £28.4m to £28m, but after eliminating the effect of currency changes, sales volume remained level, with a small reduction in gross margin.

A tax credit of £17,000 (£166,000 charge) - the result of higher UK profits being sheltered from tax by prior years' losses and lower earnings abroad - meant earnings per share were higher at 1.13p (0.4p).

An increased interim dividend of 0.5p (0.4p) is declared.

Mr Hardcastle reported that Densitron had taken a legal action in the US against a Japanese competitor concerning the misuse of confidential information.

Costs of the action were "quite significant", he said, but at this time, the company expected to recover all of its costs, plus damages. The case is due to come to court in mid-December.

## Arcadian in talks to expand hotel side

ARCADIAN International, the leisure-based developer and operator, is in negotiations with separate vendors that may lead to the purchase of eight hotels in the south of England and Jersey, writes John Murrell.

The company intends to fund the acquisitions in part via a rights issue to raise some £11.5m net. With negotiations still under way terms of the cash call were not available.

Consideration would be met by a combination of cash, new ordinary shares and warrants. The acquisitions would comprise a hotel company, together with the hotel business and assets of two subsidiaries of Hidden Hotels. In addition, Arcadian will

assume debt in the hotel company which is not expected to exceed £12.8m. Both acquisitions would be subject to shareholders' approval.

Of the money being raised, some £5.5m would fund the cash consideration of the Hidden Hotels. The balance would be used to reduce the enlarged group's debt, most remaining investment requirements and provide extra working capital.

Mr Robert Breare, chief executive, said Arcadian had been looking for quality hotels in the UK to balance its portfolio of hotel, golf and country club developments located mainly in continental Europe.

He added that the hotels under discussion met "all our criteria".

## Boardroom reshuffle and asset sale at BCE

MR DAVID Fisher, chairman of BCE Holdings, the snooker and pool equipment maker, has sold 8.37m ordinary shares, representing 29.9 per cent of the issued capital. He retains 8.55m shares.

Mr John Roberts bought 433,789 of the shares (15 per cent), a trust of which Mr Barry Adams is the beneficiary bought 3.97m (14.2 per cent) and Mr Robin Jones bought 3.97m (14.2 per cent). Mr Adams and Mr Jones have been appointed to the board.

Henacre, a new company owned by Mr Fisher, has entered a conditional contract to buy four amusement arcades owned by BCE for a total of £1.08m cash on completion. The arcades, three in Bristol and one in Bath, generated operating profits of £172,767 for the year to March 31. At that date they had a book value of £1.08m.

Following completion Mr Roberts will become chairman of BCE. The shares rose 2p to 10p.

## PRIVATISATION PROCEDURE OPENING OF INTERNATIONAL REGISTER FOR PRE-QUALIFICATION

The Venezuelan Investment Fund (FIV) announces the commencement of the International Pre-Qualification Period for interested operators in the acquisition and operation of the

C.A. ENERGIA ELECTRICA DE BARQUISIMETO (ENELBAR)

The C.A. Energía Eléctrica de Barquisimeto generates, transmits and distributes electricity in the State of Lara. The Company serves more than 200,000 subscribers, with annual sales of approximately 1,300 GWh. Part of the energy sold is generated by the company's own facilities which have an installed thermoelectric generating capacity of 149 MW.

### PRE-QUALIFICATION

Interested bidders must include a technical operator whose equity participation will not be less than 25%. In the event that one or more state-controlled entities form a part of the bidding consortium, their interest will be limited to a maximum equity participation of 35%. Interested bidders will submit the required documentation by hand to the offices of the FIV in Caracas. The packet submitted will contain three full identical sets of documents in three separate envelopes. The first one marked "Fondo de Inversiones de Venezuela", the second marked "The Chase Manhattan Bank, N.A.", and the third marked with the name of the bidder. This third packet will be stamped as "Received" and will serve as a receipt for the submitted documentation.

After bidders pre-qualify and sign a confidentiality agreement, they will have access to the Data Room, which will be open through October 27, 1993. If the bidder is a single company, it may prequalify as of this date, and if it wishes to join or form a consortium, it will have until October 18, 1993 to do so. IMPORTANT NOTICE: The term "bidder" used here refers to a single company (operator) or a consortium (including an operator). In either case, all criteria and requirements must be satisfied by the bidder in order to qualify for the bidding process.

### DOCUMENTATION

A letter, in Spanish, should be prepared to provide the following information:

**Bidder Information:**  
Provide the legal name and domicile of the bidder, and a primary contact name, telephone and fax numbers. In the case of the bidder being a consortium, provide the legal names and domiciles of the members of the consortium, and establish a primary contact name on behalf of the consortium and provide telephone and fax numbers.

**Technical Operator Criteria:**  
a) How many years of experience does the bidder have in electrical distribution? - minimum four years.  
b) How many customers did the bidder serve in the last fiscal year? - minimum 200,000 customers.  
c) What was the energy invoiced by the bidder in the last fiscal year? - minimum 1,000 MWh.  
d) What were the average annual percentage energy losses for the bidder for the past three fiscal years? (please provide method of calculation). - maximum 13%.

**Other Technical Information:**  
1) What has been the frequency of service interruption, the average duration of service interruption and total duration of service interruption in each of the past three fiscal years? (please provide method of calculation).  
2) What has been the bidder's experience in thermoelectric power generation?  
3) What is the power distribution profile of the bidder by type of customer (Residential, Commercial, Industrial, Official and Other), in GWh and % of total, for the last fiscal year?  
4) Who are the top five industrial customers of the bidder and their invoiced power in GWh for the last fiscal year? (please provide names and telephone numbers of customer contacts for references).  
5) What is the length (in pole kilometers) of the bidder's transmission and distribution system? (please provide breakdown by tension levels).

Note: In the case of the bidder comprising more than one operator, responses to the above may be given as combined or cumulative.

**Financial Criteria:**  
a) What is the (combined) net worth of the bidder at latest fiscal year-end? (please show method of calculation). - minimum US\$150 millions.  
b) What has been the increase/decrease in (combined) net worth of the bidder over the past three fiscal years? (please show method of calculation). - maximum decrease of 10%.

The bidder must provide Audited Financial Statement and Annual Reports (in their language of origin) for the last three fiscal years. The bidder should send any other relevant documentation it deems necessary in support of its responses along with page references for each of the above items. The FIV and Chase reserve the right to request additional information in order to clarify any response to the above questions.

The packet must be hand delivered and will be accepted at the following address on Mondays and Thursdays between 3:00 P.M. and 4:00 P.M. through October 18, 1993:  
Fondo de Inversiones de Venezuela, Coordinación General de Proyectos-Sector Eléctrico  
Edificio Centro Valores, piso 2, oficina 2-4, Esquina de Luneta, Parroquia Altamira  
Caracas, Venezuela. Telephones: (582)806-5870; 861-0698; Fax: (582)806-5852  
Attention: Mr. Nestor Ramirez

Additional information may be obtained from the Chase Manhattan Bank, N.A. by contacting  
Mr. Guillermo Vernet in Chase Caracas at (582) 951-2011 or  
Mr. Charles Wortman in Chase New York at (212) 552-2625.

## Delyn falls £142,000 into the red

EXCEPTIONAL charges of £581,000 pushed Delyn Group, the manufacturer of consumer packaging and materials, £142,000 into the red at the pre-tax level for the 26 weeks ended August 1.

That compared with previous profits of £500,000 and was struck from turnover of £6.71m (£6m).

Losses per share worked through at 3.55p (earnings 3.94p). The interim dividend is held at 0.5p.

The exceptional provision related to Delyn's holding in Plastella which was disposed of in May.

## Anglo St James trims deficit

A £190,000 reduction in interest charges to £255,000 helped Anglo St James, the commercial property developer, reduce its deficit from £289,000 to

£25,000 pre-tax for the six months to end-June.

Losses per share emerged at 0.2p (1.8p).

The directors said market conditions were "certainly more promising" than 12 months earlier.

Improved freights helped Lofs to £1.55m

London & Overseas Freighters, the Bermuda-based shipping company ultimately controlled by Iroquois Shipping Corporation of Liberia, reported income before tax of \$1.56m (£1.02m) for the six months to September 30.

The results, compiled under US generally accepted accounting principles, compared with a restated deficit of \$165,000 last time.

Net freights and hire amounted to \$10.9m (\$7.54m) reflecting the commencement in July of the five year Chevron charter on the London Pride, increases built into daily rates of similar charters on the London Spirit and London Victory and improved trading conditions for the London Enterprise.

Earnings per share emerged

at 6.4 cents (losses 1 cent). The company plans an international offering of up to \$m American Depositary Shares at between \$15 and \$17 apiece. Proceeds will be used to finance expansion of its oil tanker fleet.

Furman Selz and NatWest Securities are managers and the latter is also sponsoring the offering on the London Stock Exchange.

## ML sells airships arm to Westinghouse

Slingsby Aviation, a wholly owned subsidiary of ML Holdings, the aerospace, defence and electronics group, has sold the assets of its airships business to Westinghouse Airships of Baltimore.

Consideration is £7.7m, payable on completion.

## Bass in Indonesian joint venture

Holiday Inn Worldwide, the hotels division of Bass, the brewing and leisure group, has signed a joint venture with PT Hotel Dirgahayu Indah Raya, part of the Susanti Group, to

develop 30 hotels in Indonesia over the next seven years. Bass and Susanti will each invest \$30m (£20m) progressively in the venture.

Additional debt financing will be sought as hotels are developed.

## Helene sets up fresh credit facility

Helene, the fashion wear distributor and textile merchant, has signed a £20m three-year revolving credit facility with its banks.

It replaces a series of bilateral uncommitted and committed facilities to various group companies.

The facility was arranged by Samuel Montagu and syndicated to National Westminster, Royal Bank of Scotland, Barclays, Standard Chartered and Credit Lyonnais.

In addition, Samuel Montagu has co-ordinated a series of bilateral facilities, amounting to £14m, including £9m for letters of credit.

Helene also announced that it had issued 3.38m ordinary shares as the deferred consideration for the acquisition of John Tyron.

## CONTRACTS &amp; TENDERS



## ÇUKUROVA ELEKTRİK A.Ş.

### PRE-QUALIFICATION FOR THE ENGINEERING AND CONSULTANCY SERVICES

Pre-qualification will be made for the Engineering and Consultancy Services related to the various Dams and Hydroelectric Power Plants.

Çukurova Elektrik A.Ş. which is a fully private electrical utility company situated in Adana in the south of Turkey, having the concession to generate, distribute and sell electricity in the region consisting of Adana, İcel, Hatay and Kahramanmaraş provinces intends to hire consulting engineers for Dams and Hydroelectric Power Plants currently under construction or will be constructed.

The interested foreign and local firms to participate in the pre-qualification may obtain, starting from October 12, 1993, detailed information and requirements for the services and the Pre-qualification Questionnaire for Engineering and Consultancy Services from

Çukurova Elektrik A.Ş.  
Şeyhan Barajı, P.O.B. 239 ADANA/TÜRKİYE  
Phone: (322) 235 06 81 (4 Lines)  
Telefax: (322) 235 02 57

The complete PQ documents should be submitted individually by the firms to the address above until November 1, 1993 at the latest. Application made by telefax or telex will not be considered.

GENERAL MANAGEMENT

## PUBLIC NOTICES

## TECK CORPORATION

## NOTICE TO WARRANT HOLDERS

Notice is hereby given to the holders of Class B Subordinate Voting Share Purchase Warrants (the "Warrants") issued under the Warrant Indenture dated as of July 3, 1991 between Teck Corporation and National Trust Company that the Warrants expire at 4:00 p.m. Toronto time, on December 15, 1993 and thereafter the Warrants will be null and void.

Warrant holders wishing to exercise Warrants must surrender, or send by mail or other means, the Warrant certificate with the subscription form duly completed together with the required payment in accordance with the terms of the Warrant Indenture to a principal office of The R.M. Trust Company in Toronto, Montreal, Calgary, Winnipeg or Vancouver or to the office of Bankers Trust Company, London, England to be received at such office at or prior to 4:00 p.m., Toronto time, December 15, 1993.

Teck Corporation  
K.L. Dunfee  
Corporate Secretary

Vancouver, BC  
October 7, 1993

## LEGAL NOTICES

In the matter of Halls Middle East Limited and

In the matter of the

Cyprus Companies Law Cap 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required to lodge the 14th day of November 1993 to send in their claims, their addresses and descriptions, full particulars of their claims or claims and the names and addresses of their solicitors (if any) to the undersigned Mr. Anthony Hagi Romanos FSCA of 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, 119, 120, 121, 122, 123, 124, 125, 126, 127, 128, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 139, 140, 141, 142, 143, 144, 145, 146, 147, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 174, 175, 176, 177, 178, 179, 180, 181, 182, 183, 184, 185, 186, 187, 188, 189, 190, 191, 192, 193, 194, 195, 196, 197, 198, 199, 200, 201, 202, 203, 204, 205, 206, 207, 208, 209, 210, 211, 212, 213, 214, 215, 216, 217, 218, 219, 220, 221, 222, 223, 224, 225, 226, 227, 228, 229, 230, 231, 232, 233, 234, 235, 236, 237, 238, 239, 240, 241, 242, 243, 244, 245, 246, 247, 248, 249, 250, 251, 252, 253, 254, 255, 256, 257, 258, 259, 260, 261, 262, 263, 264, 265, 266, 267, 268, 269, 270, 271, 272, 273, 274, 275, 276, 277, 278, 279, 280, 281, 282, 283, 284, 285, 286, 287, 288, 289, 290, 291, 292, 293, 294, 295, 296, 297, 298, 299, 300, 301, 302, 303, 304, 305, 306, 307, 308, 309, 310, 311, 312, 313, 314, 315, 316, 317, 318, 319, 320, 321, 322, 323, 324, 325, 326, 327, 328, 329, 330, 331, 332, 333, 334, 335, 336, 337, 338, 339, 340, 341, 342, 343, 344, 345, 346, 347, 348, 349, 350, 351, 352, 353, 354, 355, 356, 357, 358, 359, 360, 361, 362, 363, 364, 365, 366, 367, 368, 369, 370, 371, 372, 373, 374, 375, 376, 377, 378, 379, 380, 381, 382, 383, 384, 385, 386, 387, 388, 389, 390, 391, 392, 393, 394, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404, 405, 406, 407, 408, 409, 410, 411, 412, 413, 414, 415, 416, 417, 418, 419, 420, 421, 422, 423, 424, 425, 426, 427, 4



# INTERNATIONAL STANDARDS

Thursday October 14 1993

Industry and the consumer both have an interest in the development of internationally recognised standards. In this special survey, which coincides with the 24th annual International Standards Day, Charles Batchelor reports on progress

## A pervasive influence

STANDARDS, and the international agreements that underpin them, have a pervasive influence on our daily lives. They help determine the shape and size of our credit cards, the symbols on the dashboard of our cars, the speed codes for the films in our cameras and the paper sizes we use at the office.

No less important for the industrial or commercial user is the international system for grading screw threads, the agreement on a standardised size for freight containers and a common format for the numeric representation of dates and times.

The absence of an international, or even a European, standard for electric plugs and sockets, is one of the most obvious failures of the standards industry. A study has finally begun into finding at least a Europe-wide answer to a cause of constant annoyance for the international traveller, and of cost to manufacturers.

Yet, in spite of its powerful impact on our lives and the economies of nations, the standards world remains a curiously low key one. The reason is not far to seek. Creating standards is the humdrum task of armies of committees around the world. Much of their time is spent debating almost imperceptible tolerances of machinery and systems of little interest to the

non-specialist. The picture is made no clearer by the range of overlapping national, European and international bodies involved and the pea-soup of acronyms used to label the organisations and the standards they produce.

In Britain, for example, the British Standards Institution co-ordinates the writing of new standards. At the European level most standards are set by CEN, the European Commission for Standardisation, although electrical products and telecommunications have their own organisations.

International standards, in turn, are set by the Geneva-based International Organisation for Standardisation (ISO). Once again, however, electrical products are the responsibility of another body, the International Electrotechnical Commission.

These overlapping organisations result in the same standard appearing in many different guises. BS5750, a British quality assurance standard, has been adopted internationally as ISO9000 and in continental Europe as EN29000.

Despite the barriers thrown up by the bureaucratic nature of much standards work, there are signs that neglect is making way for a period of closer public interest. This interest is fuelled by a number of important factors:

■ The growing importance of regional trading blocks which require harmonised standards if industry is to benefit fully from the removal of internal barriers. The formal launch of the single European market last January gave an added impetus to the move towards harmonised European standards which had been under way since the early 1990s.

■ The creation of the North American Free Trade Area has similarly given additional urgency to the search for harmonised standards and is prompting closer working between Canadian, Mexican and US organisations.

■ The ultimate aim of industry and the standards writers is to create international standards. Pressure from third world countries, no less than from the industrialised world, is for standards which will get their products into all the world's markets.

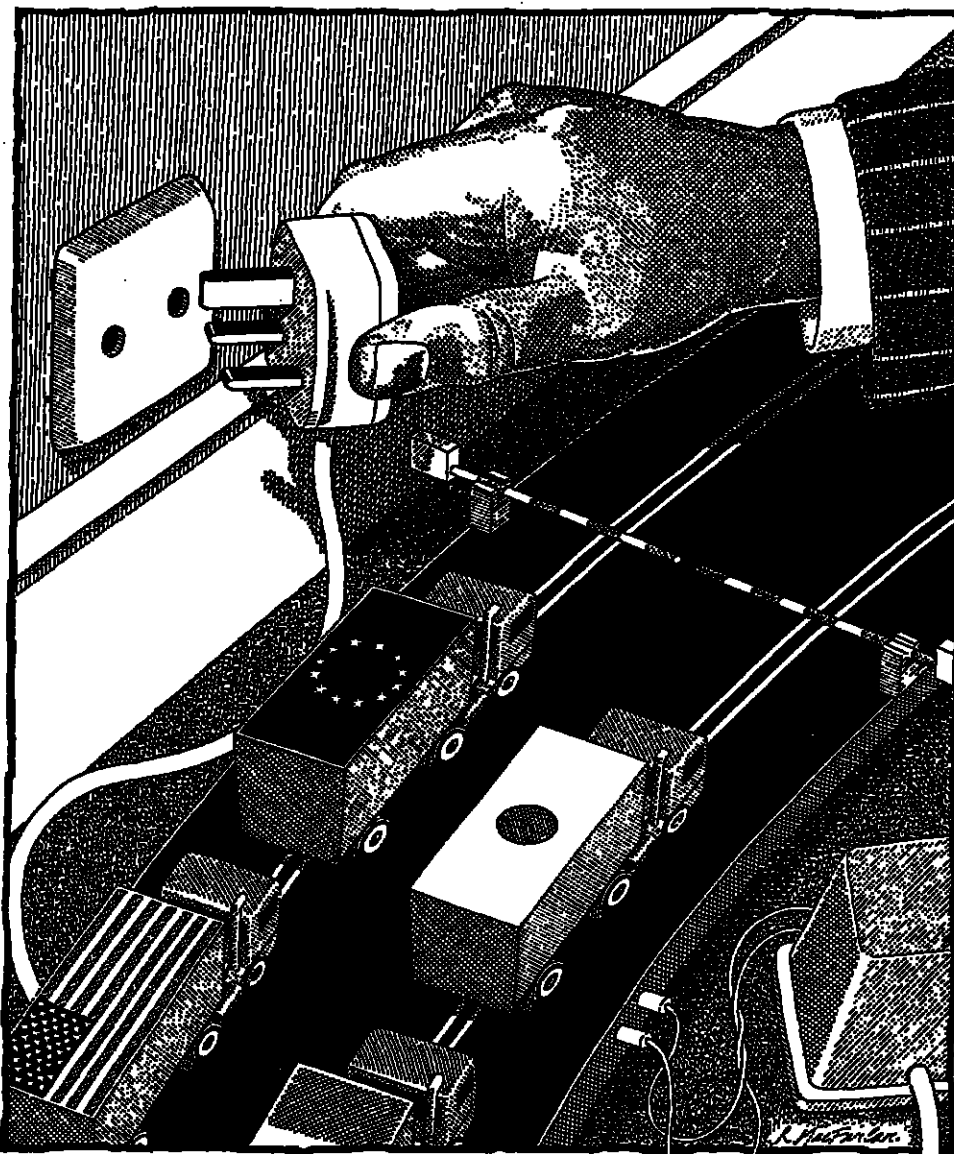
■ But the range of conflicting interests - manufacturers, consumers, regulators - which have to be reconciled to create truly international standards may initially be replaced by regional standards.

■ A growing awareness of the economic advantage which can be won by ensuring that your national standard forms the basis for an international standard. Britain, France and Germany each head about one third of the ISO committees set up to establish new international standards, a position which allows a considerable influence on the shape of the ultimate standard.

■ The Canadian Standards Association felt it had achieved a sizeable benefit when it was allocated the secretariat of a new ISO committee to write environmental standards.

■ A move to the writing of what are sometimes known as horizontal standards, covering such areas as quality assurance and environmental management. ISO9000, the first such standard, has provoked much controversy.

■ Some parts of US industry fear that ISO9000 will be used to buttress fortress Europe, while countries such as Germany, where more reliance is



require 200 harmonised standards, the construction products directive no fewer than 2,000 new standards.

The so-called new approach directives give greater flexibility than their predecessors, which laid down detailed technical requirements. But they do require a welter of standards-making to back them up. Some of those involved fear that the scale of the work involved is leading to a decline in the quality of the standards which are being written.

"Standards are being rushed through. They are poorly drafted and open to misinterpretation," commented one participant in the standards-writing process.

Nor is industry entirely happy with every aspect of the new directives and their supporting standards. The certification and testing bodies in the different countries - the public and private organisations and laboratories which confirm that a particular standard has been met - frequently differ in their interpretation of a standard.

To overcome this problem the European Organisation for Testing and Certification was set up in January 1993. The EOTC has already established groups in the fields of electrical products, information technology and water supply to ensure that testing laboratories and certification bodies recognise each others' work and more than a dozen other groups are being established.

Even so, companies with an established product range and a good safety record frequently find the new directives unduly complex, bureaucratic and costly to conform to, according to Mr Mo Masri of SGS, a large testing and certification company.

Introducing standards into a new area, or modifying the existing standards framework, can have a powerful knock-on effect on industry. Manufacturers may be forced to modify their product ranges, cutting out marginal items which do not justify the cost of testing or certification, and designing new products to meet the standards. The European Toy Directive put a lot of toy manufacturers out of business.

The standards industry also faces a considerable shake-up. There are an estimated 10,000 independent testing laboratories in Europe as well as a large number of certification organisations. The new EC directives are creating more work in the short term but if the EOTC is successful in promoting mutual recognition of test certificates then closures and mergers are likely.

The pressure for standards, national, regional and international is inexorable. The benefits to the consumer, industry and trade are indisputable. But there is equally no doubt that the standards revolution will claim its casualties. Standards have become another risk which companies must learn to manage.

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## INTERNATIONAL STANDARDS 2

Charles Batchelor discusses the problems facing the UK organisation

## BSI sails into choppy seas

THE British Standards Institution, the organisation which co-ordinates the writing of UK standards, should be riding the crest of the wave. BS5750, the quality assurance standard it devised in the late 1970s, has become a world-wide best-seller and the basis for the European and international quality standards.

Yet, just when the benefits of the hard work that went into BS5750 are starting to pay off, BSI has run into choppy seas. The strains imposed by its efforts to modernise its somewhat bureaucratic procedures cost it its chief executive earlier this year.

And around the same time the government ordered a review of BSI, the grant it receives from the public purse and the whole issue of standards writing in the UK.

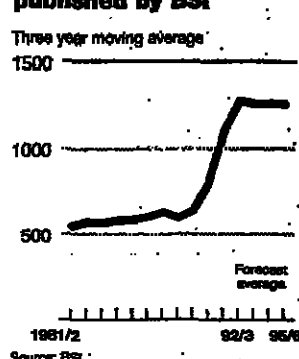
The government has yet to announce the results of its review but BSI is pressing on with its own internal reorganisation. It is streamlining its standards-writing division at the cost of 70 jobs and an annual saving of £3m. Further cost savings and increased efficiency are expected from a concentration of the organisation's London-based activities in new offices in Chiswick, west London.

BSI is unusual for a standards organisation in that it not only co-ordinates the writing of standards, it also has divisions involved in quality assurance certification and product testing. Its German and French counterparts, DIN and AFNOR, are engaged simply in standards-writing. BSI's combination of activities produced profits of £7.5m last year on sales of £74m. It employs 2,000 people.

Combining these three areas of activity gives BSI an undoubted marketing advantage in the highly competitive fields of certification and testing, though it stresses they are managed separately. More than 30 other organisations are engaged in certifying companies to the BS5750 quality standard while, according to some estimates, the UK has no fewer than 5,000 product-testing laboratories.

To ensure that the organisations which carry out certifica-

Number of standards published by BSI



tion and testing are themselves up to scratch, the government established a National Accreditation Council for Certification Bodies in 1984. If a certifier meets the standards set, it can issue certificates bearing the tick and crown symbol of the NACCB.

The strains imposed by BSI's efforts to modernise its somewhat bureaucratic procedures cost it its chief executive earlier this year

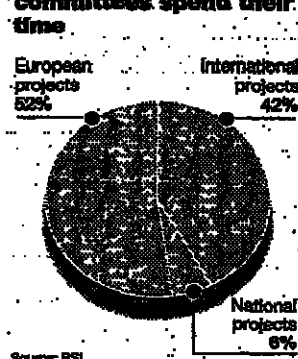
For reasons which have looked increasingly eccentric as competition between the certification bodies has grown, the NACCB was set up under the BSI's royal charter and is funded by BSI.

No-one has suggested that this curious arrangement limits the NACCB's ability to treat BSI's certification activities any differently from those of BSI's commercial rivals. But it does look odd and BSI itself is keen for the NACCB to achieve complete independence.

Established in 1901 as the Engineering Standards Committee, BSI managed to avoid the split between the electrical sector and the rest of industry which has marked other standards organisations. The split arose because the International Electrotechnical Committee was founded in 1907, 40 years before the International Organisation for Standardisation, responsible for all other industry areas, and the two never merged.

Other standards organisations which were subsequently set up, notably the European organisations CEN and its elec-

How BSI standard committees spend their time



trical counterpart CENELEC, mirrored this split.

One of BSI's first actions was to bring order to the manufacture of the steel sections used to make tramway rails. Within a year of BSI introducing a kitemark for tramway rails in 1903 the number of steel sec-

tions used had fallen from 75 to five and industry was making savings of around £1m a year. BSI has since gone on to create standards in a wide range of industry areas and now has some 12,000 standards covering anything from the fungal resistance of wood panels and the strength and durability of fitted kitchens to the impact resistance of cycling helmets.

Requests for standards come in from a variety of sources including companies, the government, trade associations and consumer groups. If BSI is convinced that there is a case for a new standard it puts together a drafting committee made up of groups such as manufacturers, purchasers, local authorities, government departments and consumers. These representatives give their time free although the government has calculated that the cost to industry of this activity is £200m a year.

BSI says it takes about two years to produce a British standard. It says that this is faster than many of its international counterparts but it is keen to speed up the process.

In spite of Britain's early lead in standards setting, quality slumped after the second world war. When industry and government realised just how far standards had slipped, there was a revival of interest and the creation, in 1979, of BS5750, which now accounts for just under half of BSI's turnover and two thirds of profits.

Five years ago BSI embarked on a programme designed to modernise its organisation, speed up the creation of standards and improve its profitability.

As an institution incorporated by Royal Charter, it had not had a strong commercial drive and had become somewhat bureaucratic in its attitudes.

It created the post of chief executive and appointed Mr Michael Sanderson, formerly managing director at AWD Bedford Trucks, to the job. But after only 18 months Mr Sanderson resigned in June 1988 following what BSI called "a deep disagreement with the board on important matters of policy and management".

Day-to-day management has been taken over by a three-man board committee headed by Mr Vivian Thomas, non-executive chairman. Not long after Mr Sanderson's departure, though the two events were not connected, Mr Michael Heseltine, trade and industry secretary, announced a government review of BSI. Mr Heseltine has called into question whether an organisation which now makes a sizeable profit needs an annual government subsidy of £4.5m. The government also wants to know what contribution standards make to the competitiveness of British industry and what BSI's role should be now that European and international standards are becoming more important than purely national ones.

BSI believes that its work justifies continued public sector backing. But the pressures on the government to reduce public spending are such as to make reducing or removing the subsidy extremely attractive. BSI's efforts to become more commercial could prove to be very timely.

## EUROPEAN CO-OPERATION

## Where entente cordiale reigns

dards we are not. The UK is the quickest to establish European standards as part of the national standards framework. The UK consistently tops the league in this," says Ms Patricia O'Rourke, BSI's senior press officer.

The UK's desire for European standards is not born out of idealistic Euro-enthusiasm. "The feeling is that if you don't get involved, somebody else is going to set the standard, set the agenda," she adds.

The role of the European committees has been vastly expanded by the spate of directives produced to establish the community's internal market initiative, many of which use standards to spell out their requirements.

The community has been trying to reduce technical barriers to trade since 1969 but the attempt initially foundered in a bog of technical details which had to be constantly updated.

In 1973, the Low Voltage directive took a different approach which limited legislative harmonisation to essential requirements published in the directive and then entrusted the preparation of supporting technical specifications to standards organisations.

This new approach was adopted by the Community in 1985 and these days most directives for goods and services are produced in this way.

With legislative differences outlawed by directives, considerable scope exists for the voluntary harmonisation. This is essentially a marketing challenge to suppliers to influence, but ultimately to meet, the preferences of "home" customers throughout the community without legal hindrance.

Yet at first glance, the European level looks the most vulnerable to redundancy. Ms O'Rourke says the need for European standards, however, is driven by pragmatism and the community's special need for standards to support its single market. "I think it is a question of scale and timing. When you are creating a national standard, we get all the interested bodies together."

"This can mean as many as 30 or 40 bodies represented on a committee. We even had one committee of 60. When you have a European level you have all the European countries involved and you have got to come to a consensus."

"When you are working on an international level you have more people involved and it takes longer to produce."

BSI says it takes an average of two years to produce a UK standard, four years in Europe and more than six years internationally.

She adds: "Also the EC has its own timetable of standards required by the internal mar-

ket." She points to the electromagnetic compatibility directive.

This was implemented last year to ensure that electrical products do not interfere with each other, heading off potential disasters such as television interfering with life support machines in hospitals.

The directive relies on a number of standards to elaborate its requirements.

CEN says it enjoys a fruitful and productive relationship with all its members, including BSI. "Troubled though the UK's position in Europe may be in certain respects, the European standards scene, which spans the Community and other European trading agreements, has seen a huge shift towards co-operation in drawing up standards to support directives and the UK is playing its due proportionate part as one of the biggest member states," says Mr Stewart Sanson, head of information. "These new approach directives will typically contain the essential requirements for health and safety. All the rest of things can be handled by voluntary standardisation and verification."

CEN, which was set up in 1961, admits it was a far smaller operation before 1985. "The work was not very big. But in fact there was significant work going on, with European standards for safety of lifts and safety of toys."

"Standards were created in the low hundreds. It was just an extremely small secretariat of about 10 people," says Mr Sanson.

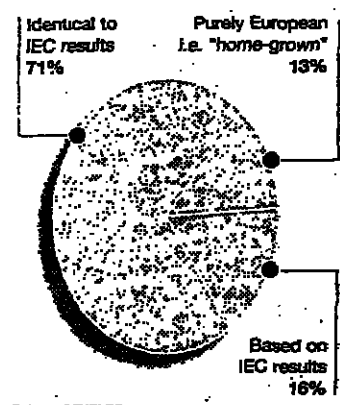
He also points to the need for a European standard set to achieve consensus more quickly than at the international level, but argues that in the end industry will decide where the appropriate standards should be set. "International consensus is sometimes particularly difficult to achieve with more than 130 countries."

"Other parts of the world have more technical differences than exist between European countries; for example, in the US voltage is very different."

He says CEN members have a much stricter attitude to the adoption of standards: "If the standard is voted for by CEN it has to be adopted and implemented as a national standard. Countries in the rest of the world do not have to adopt global standards."

Catherine Milton

CENELEC European standards



Because 1992 was the year of the drive to complete as much of the Single Market as possible, the proportion of standards drafted at European level increased slightly to 13 per cent of the total catalogue. However, 87 per cent were still adopted from international (IEC) standards.

Source: CENELEC

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## INTERNATIONAL STANDARDS 3

Frank McGurty sorts out some of the confusion in the US system

## Gulf of misunderstanding

AT FIRST glance, the American system for setting industrial and commercial standards is intimidating.

In contrast with the UK, where a single body - the British Standards Institution - has a monopoly over standard writing, there are some 450 separate groups, from the Institute of Electrical and Electronic Engineers to the American Dental Association, involved in making the rules and specifications to be followed by companies doing business in the US.

Many outsiders view the system as confusing. Some are suspicious of the inability or reluctance of American industry to streamline what is by any measure a highly fragmented process. They believe the system's centre of gravity - the American National Standards Institute - needs to be strengthened to bring more coherence to the system.

"There is a gulf of understanding between the two sides of the Atlantic over the role of standards," admits Mr Stephen Cooney, a senior policy director at the National Association of Manufacturers, an umbrella organisation representing the

interests of US industry.

Mr Cooney believes Europeans have historically viewed standards as a barrier to trade. Indeed, standard-setting within the EC has proved a pivotal issue in negotiations leading to the establishment of the single European market. This perspective has flavoured attitudes towards the US process.

In contrast, he says, American companies generally have a more trusting attitude towards the enterprise of standard setting, long considered an essential ingredient in fostering inter-state commerce. A bicycle manufacturer in Brunswick, Maine, to take one example, can feel confident buying frames from a Pasadena, California, manufacturer because the American Welding Society has established about 100 standards for metal welds.

Most of those involved with the business of standard devel-

opment agree that the reason the US system has won such broad support is its voluntary, self-regulatory approach. Market forces, rather than government oversight, are usually the catalyst for an industry to establish a new standard. However, "the hot breath of government regulators", as Mr Cooney points out, sometimes spurs the private sector into action.

Mr George Willingmyre, vice-president of ANSI, which represents the US in international standards organisations, describes the process as "complementary". If government agencies, such as the Federal Drug Administration or the Consumer Products Safety Commission, "can meet their mission by encouraging the marketplace to develop standards on their own, they will do so". Federal law requires the government to defer to any voluntary standard if an acceptable one exists.

For the private sector, the development of standards on a voluntary basis has some decided advantages. It allows industry to play a dominant role in shaping the standard as well as in revising it to reflect subsequent changes in technology and market conditions.

This bottom-to-top orienta-

tion is typified by the work of the American Society of Mechanical Engineers, one of the most active of the standard writing bodies in the US.

At the end of the last century, the ASME set the system's guiding precedent in response to growing concern over the safety of heating boilers, which were exploding at the rate of 1,000 a year. A voluntary committee, with representatives of the industry, was

convened to develop a criteria for the accreditation of manufacturers. The ASME standard is now recognised in about 80 countries.

Since then, ASME committees in a range of engineering fields have been engaged in developing two other types of standards. The first include performance test codes - that is, determining how a product such as a compressor should perform, and drawing up criteria

on design, manufacture and testing to ensure that the product meets the specified level of performance. The second category is dimensional standards for fasteners, machine threads and the like.

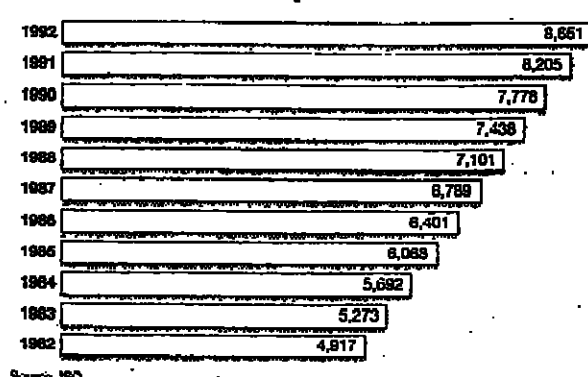
The hallmark of the system, its advocates claim, is its openness. What is known as "a balance of communities", including manufacturers and users of their products, is required. The intention is to prevent a standard from becoming a tool for an industry's most powerful players to freeze out the competition. The process must also allow ample opportunity of public review and comment.

"Standards are set for public use, so the public has a right to be part of the process," says Mr Mel Greene, ASME's associate executive director.

ANSI, a privately funded, non-profit organisation, stands at the centre of the process, though its presence is hardly imposing. It has no direct role in setting standards, but instead sets the standards to which American standard-setters are expected to conform. Its criteria relate to process rather than substance. ANSI stipulates that a standard be developed under the principles of balanced interests, consensus, public notice and rights of appeal. The process must be "open to all interested parties".

If the method conforms to these rules, ANSI may then certify the result as an "American national standard" - which forms the basis for any product's acceptance in the US

## International standards published



Source: ISO

market. Last year, 570 new national standards were approved, bringing the total number in ANSI's register to almost 11,000.

ANSI's power to co-ordinate activities of the various standard setting bodies, however, is less than absolute.

The institute's remit is to help a standard-setting body to determine if a competing body is working on a parallel standard, or if one already exists. However, some members of the standard-setting community believe that ANSI, as a private-sector organisation with no official authority, can in effect only minimise the overlap of its members' activities. It does this through a series of standards boards - medical devices, construction and health and safety and the like - to facilitate consultation among standard developers.

Dr Wallace Reed, IEEE's vice-president for standards,

says the relatively passive role of ANSI sometimes results in unnecessary duplication by rival standard setters, as well as excessive delays in implementing acceptable standards.

But Mr Cooney of National Association of Manufacturers defends the US approach. "The system works well," he insists. "There is no need to make it tight and neat" just because some are uncomfortable with its complexities.

None the less, he accepts that US industry must take a more international approach to standard writing. In this regard, he points out, US standard writers are increasingly looking for a complementary international standard before formulating their own. Second, government-to-government efforts are under way to improve the ability of foreign companies to test their products against US national standards, and vice versa.

## Meaningful explanations

Accreditation. Sometimes confused with certification but in fact a procedure for guaranteeing that the certification bodies themselves are up to scratch. There may be many competing certification bodies in a particular field but each country will normally have only one accreditation organisation. In the UK this is the National Accreditation Council for Certification Bodies (3 Birdcage Walk, London SW1H 9JH. Tel 071 222 5374).

The growing demand for standards around the world and the large numbers of certification bodies involved have prompted the spread of the idea of accreditation.

CE Mark. This is probably best known to the public because it appears on the packaging for toys but it is applicable to a wide range of products covered by the "new approach" directives.

In some cases manufacturers may apply the CE mark simply by declaring that their product meets the required standards but other products require independent certification that the standard has been reached. Toys may be labelled on the basis of self-certification but in the UK at least, many large retailers insist on independent certification.

CEN, the European Committee for Standardisation. CEN groups the national standards bodies of the 12 European Community member states and the six members of the European Free Trade Association. A further seven countries, mainly from eastern Europe, have affiliate status.

CEN was established in 1961 but had little to do for its first 24 years because standards setting was dominated by the national organisations and ISO/IEC. But in 1985 the European Community instituted a new approach to standard setting because it needed standards to back up the directives it was starting to produce for its single market initiative.

CEN attempts to avoid duplicating the work of other organisations, so where possible its standards are based on national or international ones. They carry the EN - Euro-norms - prefix. Address: Rue de Stassart 35, B-1050 Brussels, Belgium. Tel 322 519 6811.

In common with ISO, CEN has no responsibility for the electrical industry. This is handled by CENELEC, the European Committee for Electrotechnical Standardisation, (rue de Stassart 35, B-1050 Brussels. Tel 322 519 6871) while telecommunications standards are dealt with by ETSI, the European Telecommunications Standards Institute.

Certification. The process of guaranteeing that a product or service conforms to the requirements of the relevant standard or technical specification. The product or company may then carry the "stamp" of the certification body. For example, in the UK, this may involve the "kite mark" of the British Standards Institution (2 Park Street, London W1A 2BS. Tel 071 629 9000).

Third party certification - by an independent organisation - allows a supplier to demonstrate to his potential customers that he meets certain standards.

European Organisation for Testing and Certification (EOTC). Set up in December 1992 following a two-year pilot to establish the mutual recognition by certification and testing organisations in Europe of each other's work.

The EOTC also includes in its aims the influencing of European policy on technical

trade barriers and on the development and harmonisation of standards. Its membership comprises the standards organisations from 16 countries and 12 pan-European standards, consumer and industry associations.

It has established three committees to look at mutual recognition in the fields of information technology, electrical products and water supply. Address: Egmont House, rue d'Egmontstraat 15, B-1050 Brussels. Tel 322 502 4141.

ISO, the International Organisation for Standardisation. Set up in 1947, the ISO is a federation of 92 member countries which appoint committees to establish international standards. More than 8,600 international standards, bearing the ISO prefix, have been created.

Responsibility for heading each standards committee is allocated to a country with experience in that area, with the result that seven members carry out 90 per cent of the work. Germany leads with 24 per cent of standards, Britain with 23 per cent and France with 22 per cent.

If ISO creates a standard it takes precedence over national and European standards. The

Charles Batchelor interprets the jargon used in international standards

only area where ISO is not active is in the electrical industry. Electrical standards are the responsibility of the International Electrotechnical Commission, set up in 1907.

Address: 1, rue de Varembe, PO Box 56, CH-1211, Geneva 20, Switzerland. Tel 41 22 749 0111.

New approach directives. These represent a more flexible method of achieving free trade within the European Community. They allow for directives which lay down the mandatory requirements for assessing the safety of products but which leave the detailed criteria to be set down in voluntary, harmonised standards.

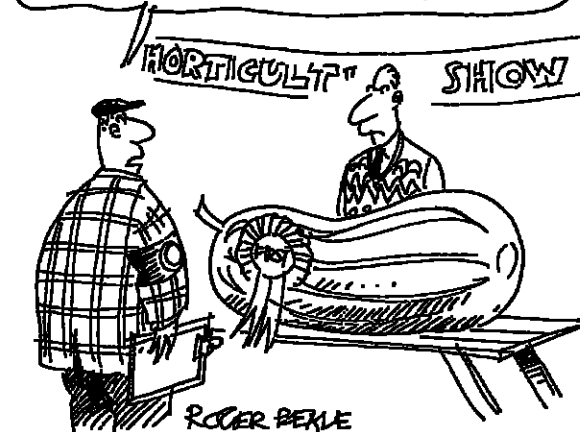
Before 1985 directives had, with one exception, included detailed annexes setting out the technical requirements for the product. Keeping the annexes up to date proved an unacceptable burden. The new approach directives were based on the model of the 1973 Low Voltage Directive which was more flexible.

New approach directives have been issued in fields such as toy safety, electromagnetic compatibility, construction products, heart pacemakers and gas appliances. Products meeting the criteria laid down in these directives and their supporting standards may carry the CE mark.

Quality. In a general sense, quality, like beauty, is in the eye of the beholder but in a trade context supplier and customer need to be talking an agreed language. ISO9000, the international quality standard, is based on an organisation's ability consistently to deliver a product or service that satisfies its customers' requirements.

The commitment to "consistency" has prompted criticism that a company could deliver a poor product but as long as it would consistently so it would still comply with the requirements of ISO9000. In practice, defenders of the standard argue, a company committed to the idea of quality would not wish to interpret it in this minimalist way.

I'M AFRAID YOU'RE DISQUALIFIED ON THE GROUNDS THAT IT EXCEEDS INTERNATIONAL STANDARDS



ROGER PEAKE

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On World Standards Day, here are just a few examples of how BSI helped industry to write the rules. (There's even a Standard which shows industry how to write a Standard: it's called BS 0.)

+ IN 1901, the world's first Standard reduced the number of different tramway rails manufactured from 75 to just 5 - saving £1,000,000 a year.

+ Just two years later, BSI introduced the Kitemark - one of the world's first product quality marks.

+ During the First World War, Standards were established for the materials used in fighter planes - enabling more to be built, more quickly.

+ Between the Wars, British Standards began to be adopted, first throughout the Commonwealth and then in other countries worldwide.

+ Over 400 Emergency Standards were produced between 1939 and 1945. The Standard for tins alone saved 40,000 tons of precious steel a year.

+ In 1979, BSI introduced another world first - BS7750, the quality systems Standard. This has now been adopted worldwide as ISO9000.

+ And in 1992, BSI published BS7750 - the world's first environmental management Standard.

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## COMMODITIES AND AGRICULTURE

## Gold price holds on to gain after New York surge

By Kenneth Gooding, Mining Correspondent

GOLD IN London yesterday held on to gains made in late trading in New York on Tuesday and closed at US\$355.75, a troy ounce, up \$5.60.

Traders said speculative buying by New York funds pushed gold through price levels that generated "buy" signals to some computerised investment programmes.

"There was nothing in the way of new news to cause this reaction. It was purely technical. There has been no change to the fundamental outlook for gold," said Mr Andy Smith, analyst at Union Bank of Switzerland.

He said that there was no follow-on buying in the Far East or Europe yesterday after the surge in New York.

In his latest Gold Strike publication, Mr Graham Roberts, head of the mining team at Carr Kitcat & Aitken, part of the Bank Indosuez Group, says

it is critical that physical demand for gold should return in response to lower prices and seasonal strength "if confidence in the gold market is to return and the all important investment buying resumed."

"Equally, in a more cautious gold market, the ghosts of central bank sales and producer forward selling have yet to be allayed," Mr Roberts suggests gold can be expected to trade in a range between \$365 and \$380 an ounce in the near term.

China's State Council has assigned the People's Bank of China and the Economic and Trade Commission to start researching the establishment of a national gold market, the China Gold News said, reports Reuters from Beijing.

It said that this was an important step toward gold products entering the market and the gold industry moving from a planned to a market economy. The paper, published by the Metallurgy Industry Ministry, gave no more details.

## US maize estimate reduced still further

By Laurie Morse in Chicago

THE US Department of Agriculture has reduced its estimate of the size of the US maize harvest yet again.

The USDA's latest report, released on Tuesday night, forecast that the crop, which suffered from late planting and the summer's record deluge, would be about 6.96bn bushels, down 3.7 per cent from its September estimate. That was the fourth such reduction in as many months.

If production does indeed fall below 7bn, it will be the smallest US maize crop since 1989, a drought year.

The magnitude of the reduction surprised grain traders, who responded by buying maize futures at the Chicago Board of Trade on Wednesday morning. By midsession, maize for December delivery was up 3 cents at \$3.47 a bushel.

The short harvest, however, poses no risk to grain supplies, or even of food rationing, as much of 1992's record crop is still in storage. Mr David Miller, analyst with the American Farm Bureau, estimated yesterday that there would be 1.1b bushels of US maize still in storage after all domestic use and export demand is accounted for.

"Carryout stocks will be

more than adequate," he said.

The USDA harvest estimate was based on an October 1 crop survey, when less than 10 per cent of the nation's maize crop had been gathered. The smaller forecast reflected cool September temperatures, which reduced yields in Iowa, and damage from scattered early frosts in Minnesota and other northern areas. Farmers with severely damaged crops are ploughing them under to qualify for government payments, rather than attempting to harvest them.

The report also reduced the USDA's soybean production estimate to 1.89bn bushels from 1.91bn in September.

Copa, the European Community farmers' lobby has raised its forecast of the 1993 EC grain crop to 167.13m tonnes, down from 167.1m tonnes and the 167.4m it estimated for the 1992 harvest.

The EC grain trade lobby, Cereals, last week put the 1993 community's grain crop at 164.87m tonnes. It estimated the 1992 harvest at 168.47m.

Copa's higher 1993 estimate mainly reflected a higher maize figure of 30.44m tonnes, against Cereals' 28.66m. The farmers' lobby also forecast a higher 1993 durum wheat crop of 6.83m tonnes, compared with Cereals' 6.15m.

## EC 'green' currency proposal may not satisfy Germans

By David Gardner in Brussels

THE EUROPEAN Commission yesterday approved plans to adjust its "green money" rules, although it was not clear whether by enough to appease Germany, which is demanding protection for its farmers against income losses that would result from further rises in the D-Mark.

Brussels wants to widen the margins of currency fluctuation within which the "green" rates at which EC farm prices are translated into national currencies are not changed. This would render revaluations of other green

currencies at the expense of German farmers less likely.

Extra EC pay-outs, moreover, would only be made after the green currency for which adjustment was sought had been down by a sufficient amount for 12 months, although the member states seeking the farm price increase could pay out an advance to its farmers, but out of national funds.

All changes in the green money grid have been frozen for the past five weeks as a sop to Germany. Previously they were triggered when the weakest and strongest currencies in the European exchange rate

mechanism drifted apart from their central rates by an aggregate of over 4 per cent in total. That total would now be 5 per cent under the commission proposal.

Through these modest adjustments, which will be laid before the EC council of farm ministers next Monday in Luxembourg, Brussels is trying to resist German pressure to restore the costly "switchover" mechanism. Under this arrangement farm prices in all member states would be lifted to follow the rise of the strongest EC currencies.

The commission calculates that the turmoil in the

exchange rate mechanism from September last year to August 2 - when all currencies in the wide band were floated within wide bands - cost the already strained farm budget an extra Ecu1.5bn (E1.16m) as a result of switchovers.

Brussels estimates that restoration of switchover would cost an additional Ecu1.6bn in 1994-95 for each 1 per cent revaluation.

Its own proposals, which call for the member states to finance half of any green adjustments nationally, would cost less than half this.

Germany's ability to apply pressure is constrained on two

fronts:

First, if EC farm prices are re-linked to the D-Mark, this will erode the nearly one third cereal price cut made in last year's reform of the Common Agricultural Policy (CAP). Those price cuts are aimed at getting EC produce prices down to world market levels after three years, and at minimising the extent to which the EC will have to comply with the 21 per cent curb on subsidised food exports over five years demanded as part of the Uruguay Round farm trade agreement.

France still refuses to accept

the Blair House agreement, but

a return to the "switchover" mechanism would make that eventual acceptance of a Uruguay Round deal involving farm trade even more difficult.

Second, east German cereals farmers have planted some 350,000 hectares more than they are entitled to under the production restraints in the CAP reform, an overabundance of nearly 10 per cent.

Bonn is seeking flexibility from Brussels given the parlous state of the east German economy, and the commission will be seeking flexibility from Germany in the agri-monetary dispute, officials say.

## Copper controversy is spectre at LME feast

Recriminations are continuing over the handling of this year's supply 'squeeze', writes Kenneth Gooding

LONDON'S ANNUAL "metals week" is under way, bringing nearly everyone who is anyone in the metals business to the UK capital. And, not for the first time, the London Metal Exchange, the institution they have come to pay homage to, finds itself at the centre of controversy.

Unusual activity has kept its "flagship" copper contract in turmoil for much of this year. First prices slumped by one quarter in only five weeks, culminating in a 5 1/2-year low in May. Several trading houses suffered huge losses - estimates range from \$50m up to about \$140m.

There were no corporate casualties but a number of individual traders, including one reputed to have lost \$14m in the copper price collapse, are now seeking employment.

More recently there has been a severe supply "squeeze". Despite lacklustre world economic conditions and LME copper stocks reaching a 15-year peak, the copper price climbed steadily. There were accusations that the price was being manipulated upwards by a clever use of options. Fingers pointed at Sumitomo, the Japanese metals group, but Mr Yasuo Hamanaka, the senior manager responsible for copper trading and often described as the most powerful individual in the copper market, denied any manipulation was going on. He said the acute supply tightness was highly technical and could be traced back to the earlier sharp fall in prices.

The LME board issued two public warnings about the squeeze and some arm-twisting went on behind the scenes, but all to no avail. So, at its meeting on September 8, the board decided to take emergency action "in anticipation of the development of an undesirable situation in the copper market", and limited the daily

backwardation (premium over the future price for metal for immediate delivery).

Since then the squeeze has disappeared and the copper price has dropped sharply. It is far from clear what happened - and those who know are not telling. Some suggest that a big deal was done against the high copper price and so there was no longer any reason to continue the squeeze. Other rumours suggest that the banks financing those behind the squeeze became concerned after the LME board took action and refused to continue to provide the necessary credit.

There are even suspicions that the squeezers and those being squeezed got together to work out a compromise arrangement after the board's action.

Meanwhile, the LME board is in a classic "no win" situation. It was widely condemned for allowing the copper price to be manipulated upwards. Now it is being criticised for intervening in the market and, in particular, for using a method that apparently favoured those who were short of copper (had sold metal they did not own in the expectation of being able to buy it later at a lower price).

All this is of more than academic interest. Apart from being in London to pay homage to the LME,

metals producers and consumers are starting their "mating season", the enduring term used to describe the start of annual contract negotiations. At least half the contracts covering the six metals traded on the LME will be related directly to LME prices.

There has been growing concern that in recent years the behaviour of the LME copper price has tended to become increasingly divorced from the perceived levels of physical supply and demand.

Mr Martin Thompson, commercial adviser at RTZ, the world's biggest mining group, suggests the main cause is that the growth of the copper market, which is restricted to growth in copper consumption, "has fallen far behind the growth in finance available to some market operators whose capacity to influence the price has grown accordingly."

"Restriction on the supply of metal - attributed to a Japanese company - did much to support copper's price in 1991," he writes in Mining Journal's annual review. "Heavy buying by Chinese companies, well beyond their physical purchases, performed the same service in 1992 and early this year. Operations by American

commodity funds have also been influential from time to time."

"In addition, the volume of options now sold is such that covering by their sellers, by both buying and selling, has become a major 'rogue' element in the market."

Mr Raj Bagri, the LME's chairman suggested this week, in a spirited defence of his board's copper market intervention, that mobility in international money markets and a massive increase in options and other derivatives activity "makes it comparatively easy or tempting for one or more participants, individually or acting in concert, to create in any free market like ours such dominant positions so as to result in potentially undesirable situations or practices."

"We must be vigilant," he said, "and ready to deal with such situations as and when the need arises."

Speaking at the LME's annual dinner on Tuesday, Mr Bagri insisted that the board believed in free markets. "But we also have a duty and obligation to run an orderly market and we are determined that the confidence reposed by the overwhelming majority of the metals trade and industry around the world in our reference

prices continues to be justified and that these prices continue to be transparently and independently established without unwarranted distortions," he declared.

Mr David King, the LME's chief executive, points out that at least 80 per cent of the exchange's business is from metals processors and consumers. Less than 1 per cent of LME turnover is from commodity fund activity compared with 25 to 40 per cent on the New York Commodity Exchange. Admittedly banks are financing 44bn of LME stocks at present but "this is mainly on behalf of producers and consumers."

Despite the criticisms, the LME is obviously doing something right. For the past four years business in tonnage terms has been increasing at an annual average rate of 30 per cent. Despite low metals prices, turnover this year will reach about US\$1,000bn, compared with \$700bn in 1992.

This still leaves the LME trailing well behind the big US commodity exchanges but it is different from them because 4 per cent of its contracts actually result in physical metal being delivered, much more than any other exchange.

Mr King says the LME has three "pillars": attractive hedging facilities; an extensive warehouse network, mainly in consuming areas, for physical delivery; and a reference price. "All these must work well because that is what the customers want."

There is still some work to be done on the warehouse network even though there are now nearly 400 authorised to stock nearly 500 LME-approved brands sourced from about 60 countries. At present only aluminium is delivered to those in Japan while copper is excluded from those in the US.

"Eventually copper and

other metals will go into Japanese warehouses and copper will go into US ones - but only when the time is right," says Mr King. "At the moment the industries in those countries are not supportive."

The LME is also looking at the potential for warehouses in the "tiger" states of the Far East, an area of fast economic growth. Thailand, South Korea and Taiwan are all possible locations.

Mr King says the LME is also keeping a wary eye on the potential merger between the New York Mercantile Exchange and the New York Commodity Exchange, which also has a copper contract.

"Nymex has high resources and trades precious metals, so a merger represents additional competition. And any Comex merger would force us to step up LME marketing in the US, that market has so much growth potential," he says.

While the threat of a competitive metals exchange being set up in Japan has subsided, Mr King suggests the LME must be wary about Germany. "Germany wants to be more involved in financial activities of all types and it might be on the agenda there," he says. "It is the main European consumer of metals and it has the resources."

Many other exchanges have "gone electronic" but the LME will retain its present system where ring-dealing members about themselves hoarse at "open outcry" sessions several times a day.

Mr King says the LME's way of trading cannot be put on screen without too many sacrifices - there are too many "prompt" dates. In any case "without the open outcry system you miss the body language, the expressions on faces, the way dealers say things. Screens can't provide this information."

## WORLD COMMODITIES PRICES

## MARKET REPORT

Persistent but unconfirmed talk of European production cuts helped the push ZINC prices sharply higher at the London Metal Exchange yesterday. The three months price was quoted at \$988.50 at the close, up \$38.75 on the day, and moved further ahead to \$976 in after hours trading. Dealers said the trend was also aided by investment funds covering what were believed to be substantial short positions. News of a smaller closure helped LEAD prices to add to Tuesday's strong gains, but after resistance was encountered around \$420 a tonne for three months metal the

price retreated to \$414.50 at the close, just \$1 higher on balance. London COCA futures appeared happy to remain positive this afternoon but without real conviction while coffee steadied after a weaker morning but seemed unsure of its next move. London COCA futures held on to most of their early gains, with the March position ending \$9 higher at \$945 a tonne. But dealers said the rise lacked real conviction. The COFFEE market steadied after a weaker morning but seemed unsure of its next move.

Compiled from Reuters

## London Markets

## SPOT MARKETS

Crude oil (per barrel FOB/Nov) + or -  
Dubai \$15.18-5.22 -0.085  
Brent Blend (dated) \$17.01-2.08 -0.093  
Brent Blend (Nov) \$17.21-7.25 -0.145  
WTI (1st put) \$16.95-5.22 -0.10

Oil products  
NWE prompt delivery per tonne CIF + or -  
Brent Blend \$192-195 -0.5  
Gas Oil \$190-192 -0.5  
Heavy Fuel Oil \$92-93  
Naphtha \$190-192

Other + or -  
Gold (per troy oz) \$368.75 +5.00  
Silver (per troy oz) \$41.50 +0.00  
Platinum (per troy oz) \$370.10 +7.10  
Palladium (per troy oz) \$358.00 +2.25

Copper (LME Producer) \$5.50 +0.5  
Lead (LME Producer) \$4.50 +0.5  
Tin (LME Producer) \$11.00 +0.05  
Zinc (LME Producer) \$2.00 +0.05

Cattle (live weight) \$118.00 -0.75  
Sheep (live weight) \$78.00 -1.42  
Pigs (live weight) \$8.25 -0.15

London daily sugar (raw) \$27.70 +5.3  
London daily sugar (white) \$28.65 +1.0  
Tare and Life report price \$28.60 +4.0

Brazilian English feed \$1.00  
Maize (US No. 3 yellow) \$1.00  
Wheat (US Dark Northern) \$1.00

Rubber (RSS No. 1) \$5.50 +0.25  
Rubber (RSS No. 2) \$5.50 +0.25  
Rubber (RSS No. 3) \$5.50 +0.25

Coconut oil (1st) \$420.00  
Palm oil (Malaysia) \$345.00 +2.5  
Cocoa (Philippines) \$270.00  
Soybeans (US) \$14.50 -0.5  
Cotton "A" Index \$52.25 +0.05  
Woolspins (US Super) \$3.50

A troy ounce is 31.1035 grams. p=premium, c=contract, f=futures, n=normal, d=daily, u=unit, s=sugar, o=oil, w=wheat, m=maize, y=yellow, b=black, r=rubber, l=live, w=weight, v=volume, p=price, i=index, e=exchange, m=market, s=sales, b=buy, s=sell, o=open, c=close, h=high, l=low, r=range, m=margin, p=profit, l=loss, t=total, g=gross, n=net, a=average, m=maximum, m=minimum, s=standard, d=deviation, c=coefficient, r=correlation, p=percentage, t=tonne, m=metric ton, b=bushel, g=gallon, l=litre, k=kilo, m=mega, g=giga, t=tera, p=peta, e=exa, z=zetta, y=yotta, n=nona, d=deca, h=hecto, da=deca, m=milli, c=centi, d=deci, q=quadrillion, t=trillion, b=billion, m=million, k=kilo, h=hecto, da=deca, u=unit, s=sales, b=buy, s=sell, o=open, c=close, h=high, l=low, r=range, m=margin, p=profit, l=loss, t=total, g=gross, n=net, a=average, m=maximum, m=minimum, s=standard, d=deviation, c=coefficient, r=correlation, p=percentage, t=tonne, m=metric ton, b=bushel, g=gallon, l=litre, k=kilo, m=mega, g=giga, 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p=peta, e=exa, z=zetta, y=yotta, n=nona, d=deca, h=hecto, da=deca, u=unit, s=sales, b=buy, s=sell, o=open, c=close, h=high, l=low, r=range, m=margin, p=profit, l=loss, t=total, g=gross, n=net, a=average, m=maximum, m=minimum, s=standard, d=deviation, c=coefficient, r=correlation, p=percentage, t=tonne, m=metric ton, b=bushel, g=gallon, l=litre, k=kilo, m=mega, g=giga, t=tera, p=peta, e=exa, z=zetta, y=yotta, n=nona, d=deca, h=hecto, da=deca, u=unit, s=sales, b=buy, s=sell, o=open, c=close, h=high, l=low, r=range, m=margin, p=profit, l=loss, t=total, g=gross, n=net, a=average, m=maximum, m=minimum, s=standard, d=deviation, c=coefficient, r=correlation, p=percentage, t=tonne, m=metric ton, b=bushel, g=gallon, l=litre, k=kilo, m=mega, g=giga, t=tera, p=peta, e=exa, z=zetta, y=yotta, n=nona, d=deca, h=hecto, da=deca, u=unit, s=sales, b=buy, s=sell, o=open, c=close, h=high, l=low, r=range, m=margin, p=profit, l=loss, t=total, g=gross, n=net, a=average, m=maximum, m=minimum, s=standard, 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**INVESTMENT TRUSTS - Con**

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

| Notes | Price | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 | 1984 | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 | 1946 | 1945 | 1944 | 1943 | 1942 | 1941 | 1940 | 1939 | 1938 | 1937 | 1936 | 1935 | 1934 | 1933 | 1932 | 1931 | 1930 | 1929 | 1928 | 1927 | 1926 | 1925 | 1924 | 1923 | 1922 | 1921 | 1920 | 1919 | 1918 | 1917 | 1916 | 1915 | 1914 | 1913 | 1912 | 1911 | 1910 | 1909 | 1908 | 1907 | 1906 | 1905 | 1904 | 1903 | 1902 | 1901 | 1900 | 1899 | 1898 | 1897 | 1896 | 1895 | 1894 | 1893 | 1892 | 1891 | 1890 | 1889 | 1888 | 1887 | 1886 | 1885 | 1884 | 1883 | 1882 | 1881 | 1880 | 1879 | 1878 | 1877 | 1876 | 1875 | 1874 | 1873 | 1872 | 1871 | 1870 | 1869 | 1868 | 1867 | 1866 | 1865 | 1864 | 1863 | 1862 | 1861 | 1860 | 1859 | 1858 | 1857 | 1856 | 1855 | 1854 | 1853 | 1852 | 1851 | 1850 | 1849 | 1848 | 1847 | 1846 | 1845 | 1844 | 1843 | 1842 | 1841 | 1840 | 1839 | 1838 | 1837 | 1836 | 1835 | 1834 | 1833 | 1832 | 1831 | 1830 | 1829 | 1828 | 1827 | 1826 | 1825 | 1824 | 1823 | 1822 | 1821 | 1820 | 1819 | 1818 | 1817 | 1816 | 1815 | 1814 | 1813 | 1812 | 1811 | 1810 | 1809 | 1808 | 1807 | 1806 | 1805 | 1804 | 1803 | 1802 | 1801 | 1800 | 1799 | 1798 | 1797 | 1796 | 1795 | 1794 | 1793 | 1792 | 1791 | 1790 | 1789 | 1788 | 1787 | 1786 | 1785 | 1784 | 1783 | 1782 | 1781 | 1780 | 1779 | 1778 | 1777 | 1776 | 1775 | 1774 | 1773 | 1772 | 1771 | 1770 | 1769 | 1768 | 1767 | 1766 | 1765 | 1764 | 1763 | 1762 | 1761 | 1760 | 1759 | 1758 | 1757 | 1756 | 1755 | 1754 | 1753 | 1752 | 1751 | 1750 | 1749 | 1748 | 1747 | 1746 | 1745 | 1744 | 1743 | 1742 | 1741 | 1740 | 1739 | 1738 | 1737 | 1736 | 1735 | 1734 | 1733 | 1732 | 1731 | 1730 | 1729 | 1728 | 1727 | 1726 | 1725 | 1724 | 1723 | 1722 | 1721 | 1720 | 1719 | 1718 | 1717 | 1716 | 1715 | 1714 | 1713 | 1712 | 1711 | 1710 | 1709 | 1708 | 1707 | 1706 | 1705 | 1704 | 1703 | 1702 | 1701 | 1700 | 1699 | 1698 | 1697 | 1696 | 1695 | 1694 | 1693 | 1692 | 1691 | 1690 | 1689 | 1688 | 1687 | 1686 | 1685 | 1684 | 1683 | 1682 | 1681 | 1680 | 1679 | 1678 | 1677 | 1676 | 1675 | 1674 | 1673 | 1672 | 1671 | 1670 | 1669 | 1668 | 1667 | 1666 | 1665 | 1664 | 1663 | 1662 | 1661 | 1660 | 1659 | 1658 | 1657 | 1656 | 1655 | 1654 | 1653 | 1652 | 1651 | 1650 | 1649 | 1648 | 1647 | 1646 | 1645 | 1644 | 1643 | 1642 | 1641 | 1640 | 1639 | 1638 | 1637 | 1636 | 1635 | 1634 | 1633 | 1632 | 1631 | 1630 | 1629 | 1628 | 1627 | 1626 | 1625 | 1624 | 1623 | 1622 | 1621 | 1620 | 1619 | 1618 | 1617 | 1616 | 1615 | 1614 | 1613 | 1612 | 1611 | 1610 | 1609 | 1608 | 1607 | 1606 | 1605 | 1604 | 1603 | 1602 | 1601 | 1600 | 1599 | 1598 | 1597 | 1596 | 1595 | 1594 | 1593 | 1592 | 1591 | 1590 | 1589 | 1588 | 1587 | 1586 | 1585 | 1584 | 1583 | 1582 | 1581 | 1580 | 1579 | 1578 | 1577 | 1576 | 1575 | 1574 | 1573 | 1572 | 1571 | 1570 | 1569 | 1568 | 1567 | 1566 | 1565 | 1564 | 1563 | 1562 | 1561 | 1560 | 1559 | 1558 | 1557 | 1556 | 1555 | 1554 | 1553 | 1552 | 1551 | 1550 | 1549 | 1548 | 1547 | 1546 | 1545 | 1544 | 1543 | 1542 | 1541 | 1540 | 1539 | 1538 | 1537 | 1536 | 1535 | 1534 | 1533 | 1532 | 1531 | 1530 | 1529 | 1528 | 1527 | 1526 | 1525 | 1524 | 1523 | 1522 | 1521 | 1520 | 1519 | 1518 | 1517 | 1516 | 1515 | 1514 | 1513 | 1512 | 1511 | 1510 | 1509 | 1508 | 1507 | 1506 | 1505 | 1504 | 1503 | 1502 | 1501 | 1500 | 1499 | 1498 | 1497 | 1496 | 1495 | 1494 | 1493 | 1492 | 1491 | 1490 | 1489 | 1488 | 1487 | 1486 | 1485 | 1484 | 1483 | 1482 | 1481 | 1480 | 1479 | 1478 | 1477 | 1476 | 1475 | 1474 | 1473 | 1472 | 1471 | 1470 | 1469 | 1468 | 1467 | 1466 | 1465 | 1464 | 1463 | 1462 | 1461 | 1460 | 1459 | 1458 | 1457 | 1456 | 1455 | 1454 | 1453 | 1452 | 1451 | 1450 | 1449 | 1448 | 1447 | 1446 | 1445 | 1444 | 1443 | 1442 | 1441 | 1440 | 1439 | 1438 | 1437 | 1436 | 1435 | 1434 | 1433 | 1432 | 1431 | 1430 | 1429 | 1428 | 1427 | 1426 | 1425 | 1424 | 1423 | 1422 | 1421 | 1420 | 1419 | 1418 | 1417 | 1416 | 1415 | 1414 | 1413 | 1412 | 1411 | 1410 | 1409 | 1408 | 1407 | 1406 | 1405 | 1404 | 1403 | 1402 | 1401 | 1400 | 1399 | 1398 | 1397 | 1396 | 1395 | 1394 | 1393 | 1392 | 1391 | 1390 | 1389 | 1388 | 1387 | 1386 | 1385 | 1384 | 1383 | 1382 | 1381 | 1380 | 1379 | 1378 | 1377 | 1376 | 1375 | 1374 | 1373 | 1372 | 1371 | 1370 | 1369 | 1368 | 1367 | 1366 | 1365 | 1364 | 1363 | 1362 | 1361 | 1360 | 1359 | 1358 | 1357 | 1356 | 1355 | 1354 | 1353 | 1352 | 1351 | 1350 | 1349 | 1348 | 1347 | 1346 | 1345 | 1344 | 1343 | 1342 | 1341 | 1340 | 1339 | 1338 | 1337 | 1336 | 1335 | 1334 | 1333 | 1332 | 1331 | 1330 | 1329 | 1328 | 1327 | 1326 | 1325 | 1324 | 1323 | 1322 | 1321 | 1320 | 1319 | 1318 | 1317 | 1316 | 1315 | 1314 | 1313 | 1312 | 1311 | 1310 | 1309 | 1308 | 1307 | 1306 | 1305 | 1304 | 1303 | 1302 | 1301 | 1300 | 1299 | 1298 | 1297 | 1296 | 1295 | 1294 | 1293 | 1292 | 1291 | 1290 | 1289 | 1288 | 1287 | 1286 | 1285 | 1284 | 1283 | 1282 | 1281 | 1280 | 1279 | 1278 | 1277 | 1276 | 1275 | 1274 | 1273 | 1272 | 1271 | 1270 | 1269 | 1268 | 1267 | 1266 | 1265 | 1264 | 1263 | 1262 | 1261 | 1260 | 1259 | 1258 | 1257 | 1256 | 1255 | 1254 | 1253 | 1252 | 1251 | 1250 | 1249 | 1248 | 1247 | 1246 | 1245 | 1244 | 1243 | 1242 | 1241 | 1240 | 1239 | 1238 | 1237 | 1236 | 1235 | 1234 | 1233 | 1232 | 1231 | 1230 | 1229 | 1228 | 1227 | 1226 | 1225 | 1224 | 1223 | 1222 | 1221 | 1220 | 1219 | 1218 | 1217 | 1216 | 1215 | 1214 | 1213 | 1212 | 1211 | 1210 | 1209 | 1208 | 1207 | 1206 | 1205 | 1204 | 1203 | 1202 | 1201 | 1200 | 1199 | 1198 | 1197 | 1196 | 1195 | 1194 | 1193 | 1192 | 1191 | 1190 | 1189 | 1188 | 1187 | 1186 | 1185 | 1184 | 1183 | 1182 | 1181 | 1180 | 1179 | 1178 | 1177 | 1176 | 1175 | 1174 | 1173 | 1172 | 1171 | 1170 | 1169 | 1168 | 1167 | 1166 | 1165 | 1164 | 1163 | 1162 | 1161 | 1160 | 1159 | 1158 | 1157 | 1156 | 1155 | 1154 | 1153 | 1152 | 1151 | 1150 | 1149 | 1148 | 1147 | 1146 | 1145 | 1144 | 1143 | 1142 | 1141 | 1140 | 1139 | 1138 | 1137 | 1136 | 1135 | 1134 | 1133 | 1132 | 1131 | 1130 | 1129 | 1128 | 1127 | 1126 | 1125 | 1124 | 1123 | 1122 | 1121 | 1120 | 1119 | 1118 | 1117 | 1116 | 1115 | 1114 | 1113 | 1112 | 1111 | 1110 | 1109 | 1108 | 1107 | 1106 | 1105 | 1104 | 1103 | 1102 | 1101 | 1100 | 1099 | 1098 | 1097 | 1096 | 1095 | 1094 | 1093 | 1092 | 1091 | 1090 | 1089 | 1088 | 1087 | 1086 | 1085 | 1084 | 1083 | 1082 | 1081 | 1080 | 1079 | 1078 | 1077 | 1076 | 1075 | 1074 | 1073 | 1072 | 1071 | 1070 | 1069 | 1068 | 1067 | 1066 | 1065 | 1064 | 1063 | 1062 | 1061 | 1060 | 1059 | 1058 | 1057 | 1056 | 1055 | 1054 | 1053 | 1052 | 1051 | 1050 | 1049 | 1048 | 1047 | 1046 | 1045 | 1044 | 1043 | 1042 | 1041 | 1040 | 1039 | 1038 | 1037 | 1036 | 1035 | 1034 | 1033 | 1032 | 1031 | 1030 | 1029 | 1028 | 1027 | 1026 | 1025 | 1024 | 1023 | 1022 | 1021 | 1020 | 1019 | 1018 | 1017 | 1016 | 1015 | 1014 | 1013 | 1012 | 1011 | 1010 | 1009 | 1008 | 1007 | 1006 | 1005 | 1004 | 1003 | 1002 | 1001 | 1000 | 999 | 998 | 997 | 996 | 995 | 994 | 993 | 992 | 991 | 990 | 989 | 988 | 987 | 986 | 985 | 984 | 983 | 982 | 981 | 980 | 979 | 978 | 977 | 976 | 975 | 974 | 973 | 972 | 971 | 970 | 969 | 968 | 967 | 966 | 965 | 964 | 963 | 962 | 961 | 960 | 959 | 958 | 957 | 956 | 955 | 954 | 953 | 952 | 951 | 950 | 949 | 948 | 947 | 946 | 945 | 944 | 943 | 942 | 941 | 940 | 939 | 938 | 937 | 936 | 935 | 934 | 933 | 932 | 931 | 930 | 929 | 928 | 927 | 926 | 925 | 924 | 923 | 922 | 921 | 920 | 919 | 918 | 917 | 916 | 915 | 914 | 913 | 912 | 911 | 910 | 909 | 908 | 907 | 906 | 905 | 904 | 903 | 902 | 901 | 900 | 899 | 898 | 897 | 896 | 895 | 894 | 893 | 892 | 891 | 890 | 889 | 888 | 887 | 886 | 885 | 884 | 883 | 882 | 881 | 880 | 879 | 878 | 877 | 876 | 875 | 874 | 873 | 872 | 871 | 870 | 869 | 868 | 867 | 866 | 865 | 864 | 863 | 862 | 861 | 860 | 859 | 858 | 857 | 856 | 855 | 854 | 853 | 852 | 851 | 850 | 849 | 848 | 847 | 846 | 845 | 844 | 843 | 842 | 841 | 840 | 839 | 838 | 837 | 836 | 835 | 834 | 833 | 832 | 831 | 830 | 829 | 828 | 827 | 826 | 825 | 824 | 823 | 822 | 821 | 820 | 819 | 818 | 817 | 816 | 815 | 814 | 813 | 812 | 811 | 810 | 809 | 808 | 807 | 806 | 805 | 804 | 803 | 802 | 801 | 800 | 799 | 798 | 797 | 796 | 795 | 794 | 793 | 792 | 791 | 790 | 789 | 788 | 787 | 786 | 785 | 784 | 783 | 782 | 781 | 780 | 779 | 778 | 777 | 776 | 775 | 774 | 773 | 772 | 771 | 770 | 769 | 768 | 767 | 766 | 765 | 764 | 763 | 762 | 761 | 760 | 759 | 758 | 757 | 756 | 755 | 754 | 753 | 752 | 751 | 750 | 749 | 748 | 747 | 746 | 745 | 744 | 743 | 742 | 741 | 740 | 739 | 738 | 737 | 736 | 735 | 734 | 733 | 732 | 731 | 730 | 729 | 728 | 727 | 726 | 725 | 724 | 723 | 722 | 721 | 720 | 719 | 718 | 717 | 716 | 715 | 714 | 713 | 712 | 711 | 710 | 709 | 708 | 707 | 706 | 705 | 704 | 703 | 702 | 701 | 700 | 699 | 698 | 697 | 696 | 695 | 694 | 693 | 692 | 691 | 690 | 689 | 688 | 687 | 686 | 685 | 684 | 683 | 682 | 681 | 680 | 679 | 678 | 677 | 676 | 675 | 674 | 673 | 672 | 671 | 670 | 669 | 668 | 667 | 666 | 665 | 664 | 663 | 662 | 661 | 660 | 659 | 658 | 657 | 656 | 655 | 654 | 653 | 652 | 651 | 650 | 649 | 648 | 647 | 646 | 645 | 644 | 643 | 642 | 641 | 640 | 639 | 638 | 637 | 636 | 635 | 634 | 633 | 632 | 631 | 630 | 629 | 628 | 627 | 626 | 625 | 624 | 623 | 622 | 621 | 620 | 619 | 618 | 617 | 616 | 615 | 614 | 613 | 612 | 611 | 610 | 609 | 608 | 607 | 606</ |
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### MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated \* with no prefix refer to the United States. Values for the first half of 1992 are in parentheses. All figures are annualised prices subject to capital gains tax on sales. Distributions from the UK funds. \* Periodic payments investors plans a Single premium Insurance, is Recognised as a LIC under the Insurance Companies Act 1982. \* The fund is a variable, a Different price includes all expenses except agent's commission, a Fixed fee of £1.00, £5.00, £10.00, £15.00, £20.00, £25.00, £30.00, £35.00, £40.00, £45.00, £50.00, £55.00, £60.00, £65.00, £70.00, £75.00, £80.00, £85.00, £90.00, £95.00, £100.00, £105.00, £110.00, £115.00, £120.00, £125.00, £130.00, £135.00, £140.00, £145.00, £150.00, £155.00, £160.00, £165.00, £170.00, £175.00, £180.00, £185.00, £190.00, £195.00, £200.00, £205.00, £210.00, £215.00, £220.00, £225.00, £230.00, £235.00, £240.00, £245.00, £250.00, £255.00, £260.00, £265.00, £270.00, £275.00, £280.00, £285.00, £290.00, £295.00, £300.00, £305.00, £310.00, £315.00, £320.00, £325.00, £330.00, £335.00, £340.00, £345.00, £350.00, £355.00, £360.00, £365.00, £370.00, £375.00, £380.00, £385.00, £390.00, £395.00, £400.00, £405.00, £410.00, £415.00, £420.00, £425.00, £430.00, £435.00, £440.00, £445.00, £450.00, £455.00, £460.00, £465.00, £470.00, £475.00, £480.00, £485.00, £490.00, £495.00, £500.00, £505.00, £510.00, £515.00, £520.00, £525.00, £530.00, £535.00, £540.00, £545.00, £550.00, £555.00, £560.00, £565.00, £570.00, £575.00, £580.00, £585.00, £590.00, £595.00, £600.00, £605.00, £610.00, £615.00, £620.00, £625.00, £630.00, £635.00, £640.00, £645.00, £650.00, £655.00, £660.00, £665.00, £670.00, £675.00, £680.00, £685.00, £690.00, £695.00, £700.00, £705.00, £710.00, £715.00, £720.00, £725.00, £730.00, £735.00, £740.00, £745.00, £750.00, £755.00, £760.00, £765.00, £770.00, £775.00, £780.00, £785.00, £790.00, £795.00, £800.00, £805.00, £810.00, £815.00, £820.00, £825.00, £830.00, £835.00, £840.00, £845.00, £850.00, £855.00, £860.00, £865.00, £870.00, £875.00, £880.00, £885.00, £890.00, £895.00, £900.00, £905.00, £910.00, £915.00, £920.00, £925.00, £930.00, £935.00, £940.00, £945.00, £950.00, £955.00, £960.00, £965.00, £970.00, £975.00, £980.00, £985.00, £990.00, £995.00, £1000.00, £1005.00, £1010.00, £1015.00, £1020.00, £1025.00, £1030.00, £1035.00, £1040.00, £1045.00, £1050.00, £1055.00, £1060.00, £1065.00, £1070.00, £1075.00, £1080.00, £1085.00, £1090.00, £1095.00, £1100.00, £1105.00, £1110.00, £1115.00, £1120.00, £1125.00, £1130.00, £1135.00, £1140.00, £1145.00, £1150.00, £1155.00, £1160.00, £1165.00, £1170.00, £1175.00, £1180.00, £1185.00, £1190.00, £1195.00, £1200.00, £1205.00, £1210.00, £1215.00, £1220.00, £1225.00, £1230.00, £1235.00, £1240.00, £1245.00, £1250.00, £1255.00, £1260.00, £1265.00, £1270.00, £1275.00, £1280.00, £1285.00, £1290.00, £1295.00, £1300.00, £1305.00, £1310.00, £1315.00, £1320.00, £1325.00, £1330.00, £1335.00, £1340.00, £1345.00, £1350.00, £1355.00, £1360.00, £1365.00, £1370.00, £1375.00, £1380.00, £1385.00, £1390.00, £1395.00, £1400.00, £1405.00, £1410.00, £1415.00, £1420.00, £1425.00, £1430.00, £1435.00, £1440.00, £1445.00, £1450.00, £1455.00, £1460.00, £1465.00, £1470.00, £1475.00, £1480.00, £1485.00, £1490.00, £1495.00, £1500.00, £1505.00, £1510.00, £1515.00, £1520.00, £1525.00, £1530.00, £1535.00, £1540.00, £1545.00, £1550.00, £1555.00, £1560.00, £1565.00, £1570.00, £1575.00, £1580.00, £1585.00, £1590.00, £1595.00, £1600.00, £1605.00, £1610.00, £1615.00, £1620.00, £1625.00, £1630.00, £1635.00, £1640.00, £1645.00, £1650.00, £1655.00, £1660.00, £1665.00, £1670.00, £1675.00, £1680.00, £1685.00, £1690.00, £1695.00, £1700.00, £1705.00, £1710.00, £1715.00, £1720.00, £1725.00, £1730.00, £1735.00, £1740.00, £1745.00, £1750.00, £1755.00, £1760.00, £1765.00, £1770.00, £1775.00, £1780.00, £1785.00, £1790.00, £1795.00, £1800.00, £1805.00, £1810.00, £1815.00, £1820.00, £1825.00, £1830.00, £1835.00, £1840.00, £1845.00, £1850.00, £1855.00, £1860.00, £1865.00, £1870.00, £1875.00, £1880.00, £1885.00, £1890.00, £1895.00, £1900.00, £1905.00, £1910.00, £1915.00, £1920.00, £1925.00, £1930.00, £1935.00, £1940.00, £1945.00, £1950.00, £1955.00, £1960.00, £1965.00, £1970.00, £1975.00, £1980.00, £1985.00, £1990.00, £1995.00, £2000.00, £2005.00, £2010.00, £2015.00, £2020.00, £2025.00, £2030.00, £2035.00, £2040.00, £2045.00, £2050.00, £2055.00, £2060.00, £2065.00, £2070.00, £2075.00, £2080.00, £2085.00, £2090.00, £2095.00, £2100.00, £2105.00, £2110.00, £2115.00, £2120.00, £2125.00, £2130.00, £2135.00, £2140.00, £2145.00, £2150.00, £2155.00, £2160.00, £2165.00, £2170.00, £2175.00, £2180.00, £2185.00, £2190.00, £2195.00, £2200.00, £2205.00, £2210.00, £2215.00, £2220.00, £2225.00, £2230.00, £2235.00, £2240.00, £2245.00, £2250.00, £2255.00, £2260.00, £2265.00, £2270.00, £2275.00, £2280.00, £2285.00, £2290.00, £2295.00, £2300.00, £2305.00, £2310.00, £2315.00, £2320.00, £2325.00, £2



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGE

## Speculation hits Belgian franc

PRESSURE for lower European interest rates and a wave of speculative selling hit the Belgian and French francs yesterday. Sterling also suffered as a result of disappointing statistics on inflation and industrial production, writes Peter John.

The Belgian franc spiked lower against the D-Mark in early European trading as one large investor was said to have sold the currency very heavily. The trade was apparently sparked by a report from a US financial consultancy which painted a very grim picture of the Belgian economy.

A number of dealers said the selling might have been carried out by Mr George Soros's Quantum Fund, which played a large part in the forced exit of sterling from the exchange rate mechanism last year.

Mr Soros has become something of a market bogeyman and whether he was involved or not the currency continued to be held back by what one dealer described as "genuine commercial selling".

The Bank of Belgium intervened sporadically and maintained the currency around BFR21.90 to the D-Mark. The franc closed at BFR21.88, down from BFR21.78 at the close of trading on Tuesday.

## £ IN NEW YORK

|         | Oct 13        | Oct 12        | Previous |
|---------|---------------|---------------|----------|
| 1 Spot  | 1.5230-1.5240 | 1.5218-1.5228 |          |
| 2 Month | 1.5230-1.5240 | 1.5218-1.5228 |          |
| 3 Month | 1.5230-1.5240 | 1.5218-1.5228 |          |
| 6 Month | 1.5230-1.5240 | 1.5218-1.5228 |          |

Forward premiums and discounts vary by US dollar.

## STERLING INDEX

|     | Oct 13 | Oct 12 | Previous |
|-----|--------|--------|----------|
| 100 | 90.3   | 90.3   |          |
| 100 | 90.3   | 90.3   |          |
| 100 | 90.3   | 90.3   |          |
| 100 | 90.3   | 90.3   |          |
| 100 | 90.3   | 90.3   |          |

## CURRENCY RATES

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## CURRENCY MOVEMENTS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## OTHER CURRENCIES

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## MONEY MARKETS

## Short rates squeeze up

WORRYING statistics on inflation failed to whip the UK money markets into a frenzy of rate cut enthusiasm yesterday, possibly because the data were offset by tight money squeezing short term rates higher, writes Peter John.

The latest figures for retail price inflation suggested that the UK might have tilted from a trend of low growth with no inflation to inflation with no growth. That would be the worst possible situation for the pound and could make the need for lower interest rates even more pressing.

UK clearing bank base lending rate 6 per cent from January 26, 1993.

However, short sterling futures which signal the market's view of where interbank rates will be at a fixed date - and consequently, the direction of base rates - failed to respond to the news.

The contract for December delivery closed only two basis points higher on the day at 94.46 although turnover was very high at more than 50,000 contracts, suggesting very active two-way business.

Many traders believe that Mr Kenneth Clarke, the chancellor, will cut base rates on or around the November 30 budget.

Bank of England operations

Economists said the market would remain concerned at least until there is some news next week on the Belgian government's social pact - a consensus on how to improve companies' competitiveness, reduce labour costs and create jobs.

Also causing investor concern are Belgium's huge national debt and lingering worries that Luxembourg might decouple its currency from the Belgian franc.

The selling spilled over to the French franc which fell sharply as lower overnight money rates provided signals that the Bank of France may be more kindly disposed to lower interest rates. Also, Mr Edmond Alphandery, the minister for the economy, said a weaker franc over the past year had been a key factor for stimulating growth.

The French franc closed at FF3.5290 against the D-Mark, down from FF3.5120.

In the UK the spectre of inflation without growth was raised by the announcement of rising inflationary pressures at the retail level and lower than expected manufacturing output. The pound fell sharply against a strong D-Mark - hitting DM2.4361 at one stage - also against the dollar.

However, it was revived by a spurt of buying from the Middle East and recovered from a low of \$1.5195 to \$1.5220. Against the German currency, it closed at DM2.4420, slightly down on the day.

The dollar staged a brief rally early in the day as some dealers decided that it had fallen far enough and they were picking up a bargain. It moved back through DM1.80 to close at DM1.8055 against the D-Mark, up from DM1.8000, but there was little volume to back up the rise. The market is waiting for tomorrow's data on September retail sales and producer prices.

## EUS EUROPEAN CURRENCY UNIT RATES

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

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## FINANCIAL FUTURES AND OPTIONS

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
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## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
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## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
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| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
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| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|           | Oct 13        | Oct 12        | Previous |
|-----------|---------------|---------------|----------|
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |
| US Dollar | 1.5230-1.5240 | 1.5218-1.5228 |          |

## LIFE LONG FUTURES OPTIONS

|   |           |   |           |   |
|---|-----------|---|-----------|---|
| 7 | 83%-85%   | - | 83%-85%   | - |
|   | 85%-87%   | - | 85%-87%   | - |
|   | 87%-89%   | - | 87%-89%   | - |
|   | 89%-91%   | - | 89%-91%   | - |
|   | 91%-93%   | - | 91%-93%   | - |
|   | 93%-95%   | - | 93%-95%   | - |
|   | 95%-97%   | - | 95%-97%   | - |
|   | 97%-99%   | - | 97%-99%   | - |
|   | 99%-100%  | - | 99%-100%  | - |
|   | 100%-101% | - | 100%-101% | - |
|   | 101%-103% | - | 101%-103% | - |
|   | 103%-105% | - | 103%-105% | - |
|   | 105%-107% | - | 105%-107% | - |
|   | 107%-109% | - | 107%-109% | - |
|   | 109%-111% | - | 109%-111% | - |
|   | 111%-113% | - | 111%-113% | - |
|   | 113%-115% | - | 113%-115% | - |
|   | 115%-117% | - | 115%-117% | - |
|   | 117%-119% | - | 117%-119% | - |
|   | 119%-121% | - | 119%-121% | - |
|   | 121%-123% | - | 121%-123% | - |
|   | 123%-125% | - | 123%-125% | - |
|   | 125%-127% | - | 125%-127% | - |
|   | 127%-129% | - | 127%-129% | - |
|   | 129%-131% | - | 129%-131% | - |
|   | 131%-133% | - | 131%-133% | - |
|   | 133%-135% | - | 133%-135% | - |
|   | 135%-137% | - | 135%-137% | - |
|   | 137%-139% | - | 137%-139% | - |
|   | 139%-141% | - | 139%-141% | - |
|   | 141%-143% | - | 141%-143% | - |
|   | 143%-145% | - | 143%-145% | - |
|   | 145%-147% | - | 145%-147% | - |
|   | 147%-149% | - | 147%-149% | - |
|   | 149%-151% | - | 149%-151% | - |
|   | 151%-153% | - | 151%-153% | - |
|   | 153%-155% | - | 153%-155% | - |
|   | 155%-157% | - | 155%-157% | - |
|   | 157%-159% | - | 157%-159% | - |
|   | 159%-161% | - | 159%-161% | - |
|   | 161%-163% | - | 161%-163% | - |
|   | 163%-165% | - | 163%-165% | - |
|   | 165%-167% | - | 165%-167% | - |
|   | 167%-169% | - | 167%-169% | - |
|   | 169%-171% | - | 169%-171% | - |
|   | 171%-173% | - | 171%-173% | - |
|   | 173%-175% | - | 173%-175% | - |
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|   | 671%-673% | - |           |   |



WORLD STOCK MARKETS

Various financial advertisements and fund listings on the left margin, including "The Corporate Fund", "The Growth Fund", and "The Income Fund".

Table with multiple columns listing stock prices and changes for various countries including Australia, Canada, Europe, Japan, and the USA. Includes sub-sections for "ASIA", "EUROPE", "JAPAN", "USA", and "CANADA".

Table titled "CANADA" showing stock prices and changes for various Canadian companies and indices.

Table titled "INDICES" showing various stock indices and their values.

Table titled "NEW YORK ACTIVE STOCKS" showing active stock prices and changes in the New York market.

Table titled "NEW YORK ACTIVE STOCKS" showing active stock prices and changes in the New York market.

Table titled "CANADA" showing stock prices and changes for various Canadian companies and indices.

Table titled "TOKYO - Most Active Stocks" showing active stock prices and changes in the Tokyo market.

Large advertisement for "FINANCIAL TIMES" featuring the headline "IS THIS YOUR OWN COPY OF THE FINANCIAL TIMES?" and details about subscription rates and delivery.



## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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## AMEX COMPOSITE PRICES

[illegible]**NASDAQ NATIONAL MARKET**

| Stock    | P    | Ch | High | Low | Last | Chg | Stock     | P    | Ch  | High | Low | Last | Chg | Stock   | P    | Ch | High | Low | Last | Chg |
|----------|------|----|------|-----|------|-----|-----------|------|-----|------|-----|------|-----|---------|------|----|------|-----|------|-----|
| AMJWoods | 0.32 | 21 | 670  | 644 | 643  | +1  | Daugherty | 14   | 452 | 144  | 144 | 144  | -   | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| ABSI Ind | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| ACC Corp | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
| Adco     | 0.12 | 49 | 12   | 12  | 12   | -1  | Dougherty | 0.00 | 12  | 108  | 25  | 25   | -1  | DeLoach | 0.10 | 13 | 367  | 347 | 347  | +1  |
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